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MECHANISMS PURSUANT TO ARTICLES 6, 12 AND 17 OF THE KYOTO PROTOCOL

Synthesis of proposals by Parties on principles, modalities, rules and guidelines

Note by the Chairmen

Addendum

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PART THREE*

PROPOSED PROVISIONS FOR EMISSIONS TRADING UNDER ARTICLE 17 OF THE KYOTO PROTOCOL

PART FOUR*

GLOSSARY

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* Parts One, Three and Four are contained in documents FCCC/SB/1999/INF.2, FCCC/SB/1999/INF.2/Add.2, and FCCC/SB/1999/INF.2/Add.3 respectively.

I. PROPOSED PROVISIONS FOR A CLEAN DEVELOPMENT MECHANISM UNDER ARTICLE 12 OF THE KYOTO PROTOCOL[1]

A. Objectives, principles, purpose

1. The Alliance of Small Island States (AOSIS) believes that the design of all three mechanisms (Articles 6, 12 and 17) should firmly rest on three basic design principles:

(a) Scientific and regulatory certainty;

(b) Environmental and cost-effectiveness; and

(c) Equity between Parties. **(AOSIS)**

2. These principles should be reflected in transparent, generally applicable and clearly stated modalities, rules and guidelines that allow participants, regulators and the public at large to understand and have confidence in the operation of each mechanism. **(AOSIS)**

3. All the Protocol mechanisms should be guided by the principle of equity (Article 3.1 of the Convention; Kyoto Protocol preamble), and should be considered in the context of Articles 4.4, 4.8 and 4.9 of the Convention. Equity has a role to play both in the allocation of resources generated by the mechanisms, and in respect to procedural fairness. Generally, modalities, rules and guidelines should be designed to ensure that all Parties otherwise eligible to participate should have open access to the opportunities provided by the mechanisms. **(AOSIS)**

4. However, additional incentives need to be created to attract the participation of and investment in Parties that are often marginalized by purely market-based instruments. **(AOSIS)**

5. Transparency in the design and application of the mechanisms' rules and guidelines will be critical to achieving this access and equity. Participants, regulators and the public at large must be able to understand and have confidence in the system. **(AOSIS)**

6. AOSIS believes that robust institutions and procedures to develop, monitor and enforce these modalities, rules and guidelines will be essential to the effective operation of all the Protocol's mechanisms. **(AOSIS)**

7. It is recognized that institutional responsibilities will have to be divided, as appropriate, between new and existing bodies, at the global, regional and national levels, and, in certain circumstances, between the public and the private sector. This division of labour must be based on principles of representativeness, demonstrable competence and subsidiarity. **(AOSIS)**

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[1] Unless stated otherwise, all articles refer to the Kyoto Protocol.

8. AOSIS would not characterize the quantified emission limitation and reduction commitments as 'ambitious', since greater emission reduction commitments will undoubtedly be necessary to achieve the objective of Article 2 of the Convention. **(AOSIS)**

9. While the Protocol mechanisms may lead to substantial cost savings for some developed countries, AOSIS rejects any effort by Annex I Parties to tie their compliance with their obligations under Article 3 to the performance of what are largely untested mechanisms. AOSIS continues to endorse the conclusions of the IPCC which have identified substantial opportunities for Annex I Parties to achieve reductions more ambitious than those set out in Annex B of the Protocol through cost-effective domestic actions. **(AOSIS)**

10. Although no group of countries would be more supportive of the prompt ratification of the Protocol, AOSIS questions the usefulness of the rapid entry into force of a Protocol which has not been properly designed. **(AOSIS)**

11. The mechanisms envisaged in the Kyoto Protocol have the dual objective of ensuring that emissions reduced through these mechanisms are achieved in a manner that is both cost-effective and environmentally effective. Costs will inevitably arise from the additional domestic, regional and international oversight necessitated by the complex nature of these mechanisms. Parties should resist the pressure to make false economies in the name of cost-effectiveness. Furthermore, transactional costs of ensuring transparency and accountability should not be sacrificed for the sake of cost-effectiveness. **(AOSIS)**

12. Article 12 of the Kyoto Protocol defines the clean development mechanism (CDM), outlining its basic structure and the functions it is to perform. **(Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, Ukraine and the United States)**

13. The CDM offers Parties opportunities for cooperation on technology, capacity-building and financing. It also offers Parties the opportunity to accrue certified emissions reductions from projects that reduce or remove greenhouse gas emissions, beginning in the year 2000. With the year 2000 approaching, it is important that progress be made expeditiously. **(Australia et al.)**

14. The primary objectives of the CDM are to: "assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3" (Article 12.2). **(Australia et al.)**

15. The CDM is a market-driven concept that will rely heavily on private sector participation, although Article12.9 also allows participation by public entities. **(Australia et al.)**

16. In order to meet the objectives in Article 12.2, the CDM will need to be environmentally sound and economically efficient. This will also be important to attract investors. In addition, the mechanism will need to be designed so that participation in CDM project activities is

voluntary; non-Annex I Parties benefit from project activities (i.e., enhanced access to new technologies, increased investment and financing, increased institutional and technological capacity and improvements in other environmental areas); and any institutional arrangement related to the operation of the CDM is efficient and minimizes costs while ensuring transparency and accountability. **(Australia et al.)**

17. The CDM should be established on a timely basis, and structured to ensure that project activities provide real, measurable and long-term benefits related to the mitigation of climate change while minimizing transaction costs. The CDM should also ensure capacity-building and access to information by all interested Parties. **(Australia et al.)**

18. As regards the attainment of the objectives of the Framework Convention on Climate Change and its Protocol, flexible mechanisms are merely one contribution and one link in the chain among others. It follows that joint implementation (JI), the clean development mechanism (CDM) and tradable permits (TP) cannot be dealt with separately. The quality of the final outcome depends on a comprehensive and dialectical approach. In view of the decisions of COP4 which require CDM to begin in the year 2000, the statements that follow will concern that mechanism in particular; for the sake of consistency and compatibility, they should, however, be taken into account in defining the other two mechanisms as well. **(Burkina Faso)**

19. Given the principle of common but differentiated responsibility and the special circumstances of developing countries, together with the fact that they are not required, at least for the moment, to achieve quantified reductions, due account should be taken of the concept of "avoided emissions". That concept will help further to increase participation by developing countries. **(Burkina Faso)**

20. In accordance with Article 12.2, each CDM project shall meet the twofold purpose, namely, (a) to assist the developing country Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, and (b) to assist the developed country Parties in achieving compliance with their quantified emissions limitation and reduction commitments under Article 3. **(China)**

21. The concept of "fungibility" among the three mechanisms of the Kyoto Protocol is totally unacceptable. **(China)**

22. The principle of transparency must be observed in all CDM transactions, such as in project selection and approval for certification and verification; establishment of additionality, project viability and sustainability. Furthermore, the establishment of baselines and accounting systems must be endorsed by host countries and approved third parties. Procedures must be established for assessing would-be and on-going operating entities. The entities, including the executive board, should, at all times, be open to scrutiny by Parties or approved third parties. **(The Gambia)**

23. Articles 3.1 and 4.2 (a) of the Convention, *inter alia*, specifically commit Annex I Parties to take the lead in reducing greenhouse gas emissions and combatting the impacts of climate change, while Article 3.2 of the Convention emphasizes the need for full consideration to be given to the specific needs and special circumstances of developing country Parties. Considering these provisions and the fact that developed countries are responsible for the bulk of greenhouse gas emissions, sustainable development in developing countries must not, in any way, be hindered by Annex I actions to reduce greenhouse gas emissions. For these reasons, African countries advocate application of the principle of equity in the implementation of both the Convention and the Kyoto Protocol, especially in the administration of the clean development mechanism and the other mechanisms. Furthermore, as called for in the Convention, developing countries, particularly in Africa, reiterate that funding of projects for limitation of emissions should be new and additional to other funding mechanisms (such as overseas development assistance), as decided by COP 2. **(The Gambia)**

24. For developing countries, the principle of equity should be applied to emissions rights, North and South transactions, between developing countries, between generations, locations and between groups within countries and geographical regions. **(The Gambia)**

25. Georgia requests the international organizations and funds, which in return for their financial support to the developing countries and the countries in transition strongly request them to implement severe taxation policies, to allow such countries to use more flexible taxation policies for the projects realized under the clean development mechanism and for technology transfer process facilitating the CDM and encouraging the participation of foreign and indigenous private sectors in these processes. **(Georgia)**

26. Georgia requests the governments (the legislative bodies) of Annex II Parties to make suitable changes and amendments to the legislation and regulatory acts for taxation facilitating the CDM and encouraging the participation of their own private sectors in this mechanism and in technology transfer. **(Georgia)**

27. The Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) provides for various mechanisms in Articles 6, 12 and 17. These mechanisms may be used by Annex B Parties to assist them in part in attaining their greenhouse gas quantified emission limitation and reduction commitments under Article 3. **(India)**

28. An objective of the ongoing process is to ensure that inequities do not get entrenched. On the other hand, inequities must be reduced with a view to eliminating them. This should guide the future deliberations from which will emerge the nature and scope of the various mechanisms in Articles 6, 12 and 17. **(India)**

29. The work programme and discussions have to make a comparison of the mechanisms proposed in Articles 6, 12 and 17. The differences and similarities between the mechanisms should be brought out. Such a comparison will also facilitate an outlining of the fundamental features of the mechanisms. For this purpose, the questions raised and issues identified by the

Group of 77 and China at the subsidiary body meetings in Bonn in June 1998 (see relevant Subsidiary Body Misc. documents of June 1998) must be addressed and elaborated upon. **(India)**

30. The Protocol has not created any asset, commodity or goods for transfers or exchange. No such assumption should be made. Neither does the Protocol create any title or entitlement. There is no provision for any concept related to inter-mechanism conveyances. **(India)**

31. Such precepts must not be allowed which have the potential of constraining social and economic development and poverty eradication programmes in developing countries. **(India)**

32. Historical emissions and inventories cannot bestow entitlements or any other rights of permanent benefits. **(India)**

33. The design of the mechanisms must not in any way compromise the modification of longer-term trends in emissions, consistent with the objective of the Convention. The greenhouse gas reductions achieved should be real and verifiable. The mechanisms should be supplemental to domestic action. The importance of a compliance regime to ensure supplementarity must be emphasized. A well-defined process should commence for the elaboration of issues pertaining to compliance. **(India)**

34. There are methodological issues, such as determination of baselines and incrementality. These issues need to be addressed before the organizational and operational matters are looked into. **(India)**

35. The CDM requires a comprehensive understanding to ensure that it delivers benefits to developing country Parties in accordance with national environmental and developmental goals, with the projects being additional to overseas development assistance. The CDM approach has to be project-by-project. The cleaner technologies to be made available must be state-of-the-art. The CDM should not be cast in a light which subsumes the other provisions in the Convention pertaining to transfer of technology and financial resources. **(India)**

36. Adaptation technologies must facilitate vulnerable systems to cope with actual or likely pressures resulting from climate change. Food and nutritional well-being is a priority issue. In the context of food and nutrition, the poorest populations are the most vulnerable. Agricultural sustainability is a key area for developing initiatives related to adaptation. Any index for vulnerability under the CDM must take full cognizance of the vulnerable areas and situations in all the developing country Parties. **(India)**

37. The three mechanisms need to be taken together and guided by the principles of equity, sound scientific backgrounds, environmental benefits and cost factors as well as the shared broker principle. **(Mauritius)**

38. Parties eligible to participate must have easy access to the benefits provided by the mechanisms. Parties marginalized by solely market-based actions should be given extra incentives to attract investment. **(Mauritius)**

39. For the design and application of these mechanisms, transparency must be the keyword. Those involved with the mechanisms must be able to understand their involvement and rules and guidelines must build up the confidence. **(Mauritius)**

40. Counting carbon credits relating to activities under the CDM in connection with commitments by Annex I countries must under no circumstances be a source of problems for us. The issue is to promote investment projects that are consistent with our socio-economic development objectives and have high potential for reducing greenhouse gases by comparison with the benchmark options they will replace. **(Senegal)**

41. A number of Parties, Senegal among them, were virtually overlooked during the pilot phase of activities implemented jointly (AIJ). Procedures are needed to ensure that CDM is a fair mechanism, particularly as regards non-Annex I Parties, and it is important to develop projects conducive to building the national or subregional infrastructure in Africa. **(Senegal)**

42. The principle of equity should be taken into account regarding:

(a) The geographical distribution of CDM projects;

(b) The defining of a per capita carbon value that is the same for all the Earth's inhabitants;

(c) The need to avoid adding "environmental conditionality" to political conditionality (good governance, pseudo-democracy, etc.) and economic conditionality (structural adjustment). **(Senegal)**

43. Although clear priority should be given to the development of the CDM, Sierra Leone thinks that all mechanisms should be developed along comparable lines so that no competitive disadvantage for either of the mechanisms arises. The use of mechanisms by the Parties listed in Annex B shall be supp[illegible]tal to their domestic action. **(Sierra Leone)**

44. The rules and procedures for verification and certification should be the same for all flexible mechanisms in order to ensure their interchangeability. **(South Africa)**

45. The purpose of the CDM comprises the following objectives:

(a) To assist Parties not included in Annex I in achieving sustainable development;

(b) To contribute to the ultimate objective of the Convention;

(c) To assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3;

(d) To assist vulnerable countries with adaptation. **(South Africa)**

46. Projects to be considered under the CDM are likely to be initiated by the private sector in both developing and developed countries. For the private sector to participate in these projects, the following essential elements need to be in place: bureaucracy minimized; rapid project approval; clear reporting requirements; and benefits of participation. **(South Africa)**

47. Operational modalities and procedures should be agreed before the CDM commences operation. **(South Africa)**

48. The elaboration of modalities to deal with verification, certification and auditing undertaken for the CDM should be extended for use in the other flexible mechanisms. **(South Africa)**

49. The determination of baselines is an important aspect of project certification and, in view of difficulties around this issue, needs to be dealt with separately. **(South Africa)**

50. Application of relevant principles. The following principles need to be considered in defining the details of the mechanisms: equity; redress; sustainability; balanced regional activity; focus on most vulnerable developing nations; polluter pays principle; fungibility; transparency; accountability; and consistency. **(South Africa)**

51. Nature and scope of the mechanisms. The mechanisms need to contribute to the overall objective of the Convention without compromising sustainability, whilst facilitating global equity. All mechanisms need to play a role in meeting the UNFCCC objective; however, their complex interactions need to be controlled and quantified to ensure appropriate behaviour is enabled. In particular the management of the outputs of the mechanisms requires careful thought. Some means of tracking the acquisition, trade, banking and application of CERs from CDM projects and ERUs developed under Articles 6 and 17 needs to be established. It is proposed that existing international entities undertake this task. Preference would be for existing entities to take on this task rather than contribute to the proliferation of international bodies. **(South Africa)**

52. Equity and transparency. The issue should not only be equity; there is also an issue of redress that is required. The mechanisms should promote the equitable allocation and consumption of global resources. **(South Africa)**

53. Equity in terms of the benefit of projects; access to projects and between non-Annex I Parties should be promoted. **(South Africa)**

54. Particular attention should be paid by COP/MOP to this issue in its review of performance. The potential for the mechanisms to compromise global equity needs to be recognized. In particular the practice of developing nations trading low-cost mitigation options to wealthy developed nations, only for future generations to be left with the high-cost options, will merely sustain global inequity. As such, mechanisms need to be included in guidelines and procedures to avoid this problem. **(South Africa)**

55. Supplementarity. The mechanisms should be supplemental to domestic action. However, the extent of this supplementarity is dependent on the conditions attached to the mechanisms. If developing nations are able to bank credits and activities for long-term application, the mechanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained. **(South Africa)**

56. Climate change effectiveness. The IPCC has already indicated that the current Kyoto Protocol targets would be inadequate to remedy any negative impacts. At the same time it should be noted that the mechanisms will be required for all future emission reduction initiatives and as such do not only need to operate in meeting the Kyoto Protocol targets. In creating the mechanisms the foundation for future activities is established. In evaluating climate change effectiveness through the CDM, the term reduction should be defined as reduction in increase of emissions rather than absolute reduction of emissions. Nevertheless, projects should have real, measurable and long-term benefits and effectiveness. **(South Africa)**

57. Institutional framework. The mechanisms need to operate as efficiently as possible. In this regard they should operate under normal business practices and be decentralized into individual nations where appropriate. Although a consistent mechanism needs to be established to handle CERs and ERUs, institutional arrangements for the management of the mechanisms should be flexible so as to accommodate national preferences. **(South Africa)**

58. Capacity-building. This should be an integral component of application of mechanisms and should include equitable capacity-building in all developing nations. **(South Africa)**

59. Adaptation. The negative impacts of climate change will be felt long before mitigation measures are effective; as such the approach to adaptation should take into account the vulnerability of countries in the following sectors: food security; energy security; disaster response; water security; flood prevention; biodiversity; spread of disease; infrastructure development and enhancement – especially in building redundancy into infrastructures so as to make them more robust in meeting the variability associated with climate change. **(South Africa)**

60. Linkages. The same standards should be applied to all mechanisms with respect to: units of measurements (tons of CO_2-equivalent) as applied to CERs and ERUs; verification and certification of reductions; and global equity. The total percentage of all three mechanisms may be used as an offset against emission reduction targets. Linkages, *inter alia*, interchangeability. Units such as CERs, ERUs and CO_2-equivalent should be equivalent and interchangeable. Consistency should apply in auditing, verification, emission reduction quantification, costing,

trading, banking etc. A consistent approach to CER and ERU trading, selling, banking and application is required in order to ensure exchangeability and no value distortion. New mechanisms should not be developed for such trading. The potential role of international commodity exchanges should be investigated for this purpose. **(South Africa)**

61. Measures should be equivalent, and interchangeability across mechanisms is supported, subject to boundary conditions not being exceeded. For example, percentage allocations to mechanisms should be met. Criteria for exchange across mechanisms should be established. **(South Africa)**

62. The principle of primary and majority of reductions in the home country should be applied by default as the CDM develops. However, this provision should fall away if benefits to developing countries are long-term. Assurance of sustainability and non-exploitation, especially of developing nations banking, trading, selling and application of CERs and ERUs. **(South Africa)**

63. Inapplicability of Article 4.8 and 4.9 of the Convention and/or Articles 2.3 and 3.14 of the Kyoto Protocol to the mechanisms. The purpose of the CDM in addressing adaptation issues is based on a country's vulnerability to the effects of climate change as opposed to its vulnerability to the effects of implementing the Convention, which is what is covered under Article 4.8 and 4.9 of the Convention. Adaptation in terms of the CDM needs to take account of vulnerability in the sectors listed above and the provisions of Articles 2.3 and 3.14. The Protocol needs to be implemented in a holistic way. It is therefore appropriate that Articles 2.3 and 3.14 are referred to when preparing rules. **(South Africa)**

64. Dependence of the ambitious environmental targets of the Kyoto Protocol upon availability of mechanisms. The IPCC should be requested to define the extent to which the mechanisms could contribute to the Kyoto Protocol and future targets. In fact, an opinion as to whether they could assist in stabilizing at 1990 levels and by when would be useful. **(South Africa)**

65. Importance of prompt decisions on workable mechanisms for ratification/entry into force. Unless substantive progress is made in the development of the rules and procedures necessary for the implementation of the Protocol very soon, the credibility of the Protocol and the Convention will be undermined amongst the nations of the world whose populations will have to consider lifestyle changes to achieve compliance with targets. The sooner the mechanisms are in place the better – especially for adaptation projects. It is proposed that early implementation of mechanisms be defined urgently and be implemented using rules and procedures with agreement that they be reviewed on a regular basis. **(South Africa)**

66. Principle of cost-effectiveness. The principle of cost-effectiveness is supported only if it is applied holistically and in the long-term. The objective of the mechanisms should not be to achieve least-cost emission reductions. This is the primary intent of joint implementation - but not of the CDM. It should be recognized that developing nations should not be afforded the luxury of least-cost options, if the high-cost options are then left to their future generations. As

such, the concept of cost-efficiency needs to be accompanied by some mechanism of credits for emission reductions in developing nations to be accrued by those nations for future application. **(South Africa)**

67. Role of mechanisms in promoting compliance. The mechanisms clearly increase flexibility. They should however not just be seen as low-cost options – they should contribute to sustainability and adaptation in the long-term. They should also not be seen as the sole means of attaining compliance; domestic action is also critical. **(South Africa)**

68. Comparable treatment among Annex B Parties, whether using Articles 6, 12, 17 or other means to achieve their Article 3 commitments. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms, of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such, some means of revising these allocations needs to be established. This can only be achieved if the value of the credits is comparable. In the case of the CDM the fact that the mechanism would provide a percentage for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms. **(South Africa)**

69. Maximizing the environmental benefits of mechanisms by assuring the lowest possible cost structures. Assuring lowest cost does not necessarily mean environmental benefits; often the opposite applies unless life cycle costs, including externalities, are considered with an attendant increase in complexity. The mechanisms clearly increase flexibility. They should however not just be seen as low-cost options – they should contribute to sustainability and adaptation in the long term. At the same time the transaction costs of projects should be kept as low as possible. It should however be noted that this does not refer to the need to allocate proceeds to issues such as adaptation in the CDM. Transaction costs should be kept as low as possible by ensuring optimum use of existing global institutional infrastructure and refraining from establishing significant new bureaucracies to manage the mechanisms. **(South Africa)**

70. Application of any quantification of "supplemental to domestic actions" to each individual State within a regional economic integration organization – apply as per Annex B in the Kyoto Protocol. **(South Africa)**

71. Supplementarity (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria). This is understood to refer to the amount of emission reduction that may be achieved through the mechanisms. If quality is to be considered then all emissions should be calculated as CO_2 corrected for global warming potential. Quantity should not be qualified in any way. **(South Africa)**

72. Prerequisites for the use of the mechanisms (compliance, linkage with Articles 5, 7, 8). Baselines need to be in place before mechanisms can be used. **(South Africa)**

73. The foundation should be set against which performance may be measured. The rules should require compliance with targets in accordance with the approach to be agreed. Once the inventories are in place and targets are rigorously quantified, the mechanisms should be applicable with a minimum of constraints. If problems are detected, the COP/MOP should identify and address them in a spirit of flexibility and learning. **(South Africa)**

74. Articles 2.3 and 3.14. Whilst these articles are not specifically referred to in Articles 6, 12 and 17, in the interests of minimizing duplication of effort, the requirements of these articles should be considered in structuring initiatives around the mechanisms. The Protocol needs to be implemented in a holistic way. It is therefore appropriate that Articles 2.3 and 3.14 are referred to when preparing rules. **(South Africa)**

75. As defined in the Kyoto Protocol, CDM projects have three purposes in addition to mutual benefits to developed and developing nations: sustainable development; emission reduction (against established baselines); and adaptation to the negative impacts of climate change. In addition, CDM projects have a role to play in technology transfer and capacity-building. **(South Africa)**

76. Some central register is going to have to be kept at national level with some form of roll-up to international level. It is proposed that existing institutional mechanisms for trading and banking commodities should be investigated as the basis for tracking the creation, trading and banking of CERs and ERUs. This function may also be undertaken by national central banks or similar institutions. The same institution should be used for all mechanisms. For developing countries this would typically only apply to the CDM. However, developed nations would also need to include ERUs developed under Articles 6 and 17. **(South Africa)**

77. Parties are responsible for: approval of CDM institutional framework, modality of operations, project criteria, CER allocations and structure, functions and composition of the board reviewing CDM performance and revision of above, participation in CDM projects, creating an enabling environment for CDM. **(South Africa)**

78. The Kyoto Protocol mechanisms (Article 6, joint implementation; Article 12, CDM; and Article 17, emissions trading) are all aimed at enabling the Parties to meet their commitments and achieve the ultimate objective of the Convention as spelt out in its Article 2. **(Togo)**

79. First and foremost agreement must be reached on the meaning to be given to certain key words which underpin these mechanisms. These are equity, transparency, complementarity or supplementarity and technology transfer, for which clear definitions are needed to remove all ambiguity and promote a climate of mutual understanding and speedy progress in the negotiations. **(Togo)**

80. It has emerged in the negotiations that these concepts are understood differently by the group of Annex I Parties and the group of non-Annex I Parties. **(Togo)**

81. We consider that all the flexibility mechanisms should be handled in a concerted manner, and not separately. It is obvious that the global approach of a single market for emissions trading in which all countries can participate modifies the order of the technical aspects to be settled. All the emission credit trading mechanisms must be subject to the same type of levy. **(Togo)**

82. Although the "Buenos Aires Plan of Action" focuses on a number of important points, the analyses and discussions on the mechanisms should move forward in a harmonious rather than a compartmentalized way. **(Togo)**

83. The climate change problem is a global one, and the fact that responsibilities are common but differentiated means that the non-Annex I Parties should not be confined solely to the debate on the CDM designed for them, while the Annex I Parties work together and devise structures for the other mechanisms (activities implemented jointly, emissions). **(Togo)**

84. Togo is convinced that the world market for emissions trading involves everyone and that the Kyoto Protocol flexibility mechanisms are by no means the solution to the problems of climate change. **(Togo)**

85. The effectiveness of the flexibility mechanisms rests on the commitment of the Annex I Parties to pursue all the domestic policies and measures needed to comply with their commitments under the Convention and the Protocol. The Buenos Aires Plan of Action provides no indication as to the means of demonstrating progress as stipulated in Article 3.2 of the Protocol. These indicators therefore need to be examined before the year 2000. **(Togo)**

86. Each of the flexibility mechanisms rests on market principles, i.e. on trading emission rights for cash. The success of the flexibility mechanisms will depend on the drawing up of rules of allocation, which, on grounds of equity and transparency, should be based on the principle of an equal right for each individual on the planet, whether he or she falls under Annex I or not. **(Togo)**

87. The design of the flexible mechanisms must be based on strong global environmental benefits and sustainable development principles, taking into account equity and transparency considerations. The design of the three flexible mechanisms should also take into account simplicity, transparency and easy-to-apply procedures to ensure successful implementation of the flexible mechanism and attainment of global environmental benefits. **(Uganda)**

88. The CDM shall operate in a mixed mode, that is, multilateral, bilateral as well as a fund. Irrespective of the form the CDM takes, the same rules, procedures and principles must be applied to the other flexible mechanisms, where applicable, to ensure credibility and quality of the credits. **(Uganda)**

89. The design of the CDM and implementation modalities of the other two flexible mechanisms must be based on equity principles to ensure fairness to all humans now and for

generations to come. The present generation should not and must not continue to deprive the future generations. The imbalance between the present generations and future generations must be addressed. It is equally very important to address the environmental and social imbalances. In attempting to address the present imbalances the principle of equity must be applied to ensure equitable distribution of resources under the flexible mechanisms. Due consideration must be given to the following:

(a) Inter- and intra-generation;

(b) North to North;

(c) North to South;

(d) South to South;

(e) Within subregions.

The principle of equity can only be seen to be applied if the process of implementing the three flexible mechanisms is transparent to all Parties and interested Parties, including the private sector. The rules of the game must be laid down on the table in simple and clear language. Developing country Parties, particularly the African Parties, must be assisted to build capacity to ensure that transparent and simple rules are developed at the national level. **(Uganda)**

90. The principle of cost-effectiveness should not be viewed from the window of the developed country Parties but from a holistic viewpoint. The market forces are not perfect and therefore, if left to the market forces, cost-effectiveness will be biased towards the investor. In order to accommodate the views of developing country Parties, the so-called market forces must be regulated. This again calls for transparency in the design of the modalities and procedures for implementing the flexible mechanisms. **(Uganda)**

91. The establishment of the flexible mechanisms of the Kyoto Protocol presupposes the deepening of the Parties' cooperation in the fulfilment of their obligations and the improvement of the effectiveness of the national activities. Such cooperation can be carried out on the basis of partnership, understanding of the national ecological and economical problems, and absence of discrimination; and can be strengthened by the participation of the donor governments and governments-investors. **(Uzbekistan)**

92. Simple, effective and clear rules should guide these mechanisms. Such rules should be credible and agreed upon. Nothing in the documents on these mechanisms should be treated as to diminish or damage the responsibilities and duties of Annex I Parties in accordance with the Convention. **(Uzbekistan)**

93. The framework and functions of all three mechanisms should be clearly identified to guarantee the confidence of governments and agencies, and the investors involved, in the interest

of their participation in the activities on such mechanisms, and of additional financing from the state and private sectors. **(Uzbekistan)**

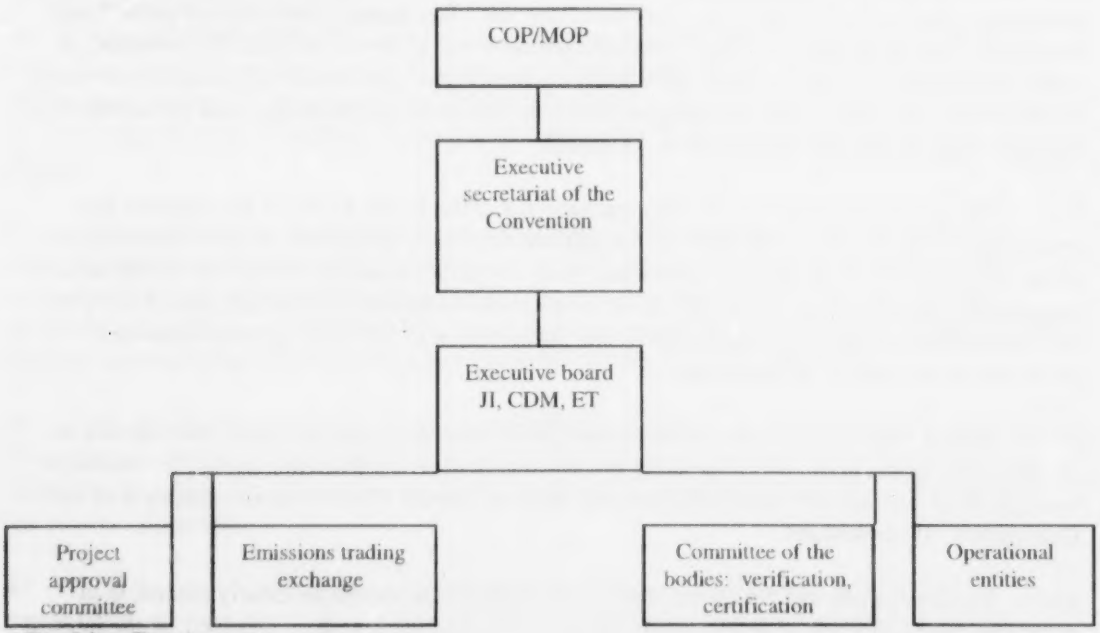
B. Institutional structure

94. The basic roles and functions of the CDM are articulated in Article 12. The main bodies include the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), the executive board, and operational entities. **(Australia et al.)**

95. The structure of the various institutions within the CDM will be critical to the operation of the CDM. It is important to note, however, that the structure of these institutions may be guided in part by the functions of the CDM. **(Australia et al.)**

96. The certification and verification of activities and emissions require the involvement of relevant structures in the developing countries. If necessary, bodies will have to be specially established for the purpose, particularly in Africa; otherwise this major continent may be left on the fringes of the process and find itself the victim of arbitrary decisions. Transparency is the key to trust between partners where this type of approach is concerned. **(Burkina Faso)**

97. COP/MOP will remain the supreme body both for the Convention and for the Protocol. On matters relating to the flexible mechanisms, it will act through the executive board (EB). There will need to be some expansion of its secretariat if it is to be able to cover all the issues. The following might be an appropriate organizational structure:



(Burkina Faso)

98. The Governments shall bear overall responsibility for approval and implementation of CDM projects, for non-compliance and for reporting. **(China)**

99. The structure and functions of the CDM should be in the form of a multilateral arrangement, a clearing-house and a fund, that would be proactive enough to assure geographical distribution of CDM projects, equity, efficiency and sustainable development. The structure (fund/clearing-house) may accommodate both public and private investment funds. The structure does not necessarily have to follow the GEF pattern nor fall within the ambit of the World Bank. The clearing-house should be the coordinating office. Consideration should be given to using existing facilities/institutions at national, subregional and regional levels that are up to the tasks of the clearing-house. The structure could serve to facilitate the following:

(a) Selection and screening of projects and other matters involving stakeholders and other interested parties

(b) Resource mobilization and utilization

(c) Awareness creation

(d) Organizing forums for CDM policy discussion and formulation and networking with appropriate institutions

(e) Formulation of CDM plans

(f) Information/contact bureau **(The Gambia)**

100. Institutional arrangements should be built on existing institutions rather than contributing to a proliferation of international organizations. **(South Africa)**

C. Role of the COP/MOP

101. The global framework must be presided over by the COP/MOP, as the supreme body of the regime, and any smaller bodies authorized to carry out executive functions on behalf of the COP/MOP must have a membership that reflects the unique representational balance established by the practice of the Parties (such as the COP Bureau). **(AOSIS)**

102. AOSIS strongly supports the principle that arrangements made among subsets of Parties, including within regional economic integration organizations, should be subject to the oversight of, and be accountable to, the COP/MOP. **(AOSIS)**

103. As stated in Article 12.4, the CDM is subject to the authority and guidance of the COP/MOP. This guidance should include: modalities and procedures governing the operation of the CDM; providing guidance to the executive board; and periodically reviewing operations of the executive board, operational entities, and independent auditing. **(Australia et al.)**

104. The COP/MOP will remain the supreme body both for the Convention and for the Protocol. On matters relating to the flexible mechanisms it will act through the executive board (EB). There will need to be some expansion of its secretariat if it is to be able to cover all the issues. **(Burkina Faso)**

105. Emission reductions resulting from each CDM project shall be certified by the operational entity to be designated by the COP/MOP in the light of the requirements of Article 12.5 of the Protocol and in accordance with the modalities, rules and procedures to be adopted by the COP/MOP. **(China)**

106. The systems for independent auditing and verification of CDM project activities, including modalities and procedures, shall be elaborated by the COP/MOP at its first session, with the objective of ensuring transparency, efficiency and accountability. **(China)**

107. The governments of the country Parties participating in a CDM project shall report to the COP/MOP on the progress and results of the CDM project activities on a project-by-project basis, using a uniform reporting format to be adopted by the COP/MOP. **(China)**

108. Reporting and the related format shall be elaborated by the COP/MOP. In the case of the developing country Parties participating in CDM projects, the reporting shall be carried out on a project-by-project basis. In the case of the developed country Parties participating in CDM projects, the reporting shall not only be submitted to the COP/MOP on a project-by-project basis, but shall also be reflected in their inventories. **(China)**

109. As the supreme body of the CDM, the COP/MOP is the supreme body for CDM decision-making, with overall responsibility for all CDM issues, in particular (CDM-43):

(a) To elaborate the modalities and procedures of the CDM project activities as provided for in Article 12 of the Kyoto Protocol

(b) To decide on acceptance or refusal of CERs of CDM projects

(c) To determine the quantification of part of their quantified emission limitation and reduction commitments (CDM-11)

(d) To designate the "operational entities", as specified in Article 12

(e) To ensure that "a share of the proceeds" from certified CDM projects is used to cover administrative expenses and to assist developing country Parties that are particularly vulnerable to the adverse effect of climate change to meet the costs of adaptation (General-6, CDM-6, 31.32) **(China)**

110. The operational entities and their activities and decisions are subject to supervision by the executive board as mandated by the COP/MOP. **(Germany on behalf of the European Community and its member States and Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Poland, Romania and Slovenia)**

111. The executive board, if mandated by the COP/MOP, shall carry out sample checks of the performance of the operational entities and the certification process. To this end, it may designate operational entities not involved in the chosen certification process. **(Germany et al.)**

112. The executive board, if mandated by the COP/MOP, decides independently or on request of the COP/MOP about which operational entity will be checked on. **(Germany et al.)**

113. If the executive board, if mandated by COP/MOP, concludes that the requirements for the certification of the emission reductions according to paragraph 193 below have not been fulfilled, the COP/MOP may, upon recommendation of the board, decide that the operational entities involved are no longer entitled to certify emission reductions according to paragraphs 336-342 below. **(Germany et al.)**

114. [...][22] **(Germany et al.)**

115. The COP/MOP will:

(a) Designate operational entities to certify project activities (Article 12.5);

(b) Elaborate procedures (Article 12.7);

(c) Ensure allocation of proceeds (Article 12.8). **(South Africa)**

116. The operational entities (Article 12.5) will undertake certification according to criteria and guidelines adopted by the COP/MOP. **(South Africa)**

117. All functions assigned to the CDM should be authorized by the COP/MOP. **(South Africa)**

118. Transparency may be assured by implementing rigorous and auditable reporting mechanisms. It is proposed that an annual report be presented to the COP/MOP by the executive board, based upon project-based registers kept in each nation by the agencies of the implementing Parties. The issue of non-discrimination is not sufficient – in fact the issue is global redress – as such mechanisms need to be put in place to ensure that the mechanisms are used to not only meet the Kyoto Protocol targets, but also contribute to global equity, without unduly constraining project opportunities. A review mechanism needs to be put in place to

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[2] Text will be provided at a later stage.

define the impacts of the mechanism, including those on competition. It should be accepted that it will not be perfect in its initial form and as such it will need to be modified with time. An annual review by an expert but globally representative panel appointed by the board is proposed, with recommended changes being put before the COP/MOP for consideration. **(South Africa)**

119. The COP defines general policy, procedures, methodologies and the composition of the CDM executive board.. The COP also has a review function, and approves of changes to policy, procedures and methodology. **(South Africa)**

120. Functions of, relationship among and operational procedures of the COP, the COP/MOP, the executive board and operational entities. An annual review of the full activities under Article 12 is to be submitted to the COP/MOP. This review is to be prepared and submitted by the CDM executive board based upon submissions from all regional CDM agencies and Parties as appropriate. **(South Africa)**

D. Executive board

121. The executive board would supervise the CDM, and could provide guidance on operational and technical issues. Although Article 12.5 states that operational entities will be designated by the COP/MOP, the executive board would accredit operational entities based on guidance from the COP/MOP. The executive board would review reports submitted by operational entities and provide synthesis reports to the COP/MOP. In some cases, the executive board may need to draw on experts to develop technical guidance. The executive board would function as a separate standing body of the COP/MOP and report to the COP/MOP through the Subsidiary Body for Implementation. **(Australia et al.)**

122. The UNFCCC secretariat could provide administrative assistance for the CDM. Some of the activities could include compiling and synthesizing information related to CDM activities from the operational entities and/or Parties and other duties. **(Australia et al.)**

123. The executive board should be relatively small and composed of an equal number of Annex I Parties and non-Annex I Parties. A possible model for the executive board of the CDM might be the Executive Committee of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol. In this case, the executive board would comprise seven members each from Annex I Parties and non-Annex I Parties, each serving two-year terms with the ability to serve consecutive terms. The chair and the vice-chair of the Board would alternate each year between the two groups. Nominations of Annex I members would be limited to Annex I Parties; nominations of non-Annex I members would be limited to non-Annex I Parties. **(Australia et al.)**

124. COP/MOP will remain the supreme body both for the Convention and for the Protocol. On matters relating to the flexible mechanisms it will act through the executive board (EB). There will need to be some expansion of its secretariat if it is to be able to cover all the issues. **(Burkina Faso)**

125. The membership of the executive board should reflect the United Nations principle of equitable geographical distribution between the five regions. Accordingly, there should be three representatives per region, plus one member each from the African least developed countries and the island States, making 17 members in all. The project approval committee should also be equitably composed, with two members per region, one representative of the African least developed countries and one representative of the small island States, or 12 members in all. **(Burkina Faso)**

126. Operating under the authority and guidance of the COP/MOP, the executive board shall supervise relevant CDM project activities. **(China)**

127. The executive board shall implement the decisions and policy guidances on CDM to be adopted by COP/MOP. **(China)**

128. The executive board shall assist in supervising the operational entities designated by the COP/MOP. **(China)**

129. The executive board may make recommendations to the COP/MOP on matters relating to independent auditing and verification of CDM project activities, etc., as provided for in Article 12. **(China)**

130. The composition of the executive board must be in line with the United Nations practice of equitable geographical representation (equitable regional distribution). **(China)**

131. The operational entities and their activities and decisions are subject to supervision by the executive board as mandated by the COP/MOP. **(Germany et al.)**

132. The executive board, if mandated by the COP/MOP, shall carry out sample checks of the performance of the operational entities and the certification process. To this end it may designate operational entities not involved in the chosen certification process. **(Germany et al.)**

133. The executive board, if mandated by the COP/MOP, decides independently or at the request of the COP/MOP about which operational entity will be checked on. **(Germany et al.)**

134. If the executive board, if mandated by COP/MOP, concludes that the requirements for the certification of the emission reductions have not been fulfilled, the COP/MOP may, upon recommendation of the board, decide that the operational entities involved are no longer entitled to certify emission reductions. **(Germany et al.)**

135. [...][3] **(Germany et al.)**

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[3] Text will be provided at a later stage.

136. The executive board should be supported by a dedicated secretariat, comprising of technical and administrative staff. The Convention secretariat should be extended to accommodate this. **(South Africa)**

137. The executive board should be a supervisory body and should not undertake functions already assigned to other subsidiary bodies of the Convention. **(South Africa)**

138. The executive board should decide on its own rules and procedures within the overall procedures of the Convention. **(South Africa)**

139. The executive board should fulfil a supervisory role over the CDM which in institutional terms will comprise the elected regional representatives (the board) and the secretariat. In other words, the secretariat will carry out functions assigned to the CDM under the supervision of the board, namely:

(a) Development of guidelines for project approval

(b) Project registration

(c) Development of criteria for project acceptability

(d) Development of guidelines for verification and certification (actual verification and certification will not be a function of the CDM)

(e) Act as funding agency by disbursing the funds accrued from CDM projects to regional or national CDM agencies

(f) Establishment of agreements with operational entities

(g) Development of guidelines for monitoring protocols. **(South Africa)**

140. Transparency may be assured by implementing rigorous and auditable reporting mechanisms. It is proposed that an annual report be presented to the COP/MOP by the executive board based upon project-based registers kept in each nation by the agencies of the implementing Parties. The issue of non-discrimination is not sufficient – in fact the issue is global redress – as such mechanisms need to be put in place to ensure that the mechanisms are used to not only meet the Kyoto Protocol targets, but also contribute to global equity, without unduly constraining project opportunities. A review mechanism needs to be put in place to define the impacts of the mechanism, including those on competition. It should be accepted that it will not be perfect in its initial form and as such it will need to be modified with time. An annual review by an expert but globally representative panel appointed by the board is proposed, with recommended changes being put before the COP/MOP for consideration. **(South Africa)**

141. Accountability of the executive board. The CDM executive board has a mandate to operate within the policy guidelines, procedures and modalities as defined by the COP. Annual reporting on activities is required. **(South Africa)**

142. Functions of, relationship among and operational procedures of the COP, the COP/MOP, the executive board and operational entities. An annual review of the full activities under Article 12 is to be submitted to the COP/MOP. This review is to be prepared and submitted by the CDM executive board based upon submissions from all regional CDM agencies and Parties as appropriate. **(South Africa)**

143. Management of the CDM should be non-bureaucratic and operate on business principles. Management of the CDM should be decentralized, with maximum operational authority being devolved to regional CDM implementation entities. These entities or agencies need to be formed using seed funding allocated by the CDM board and sourced from the GEF. The board would oversee the overall policy issues related to the CDM and operate as the primary liaison between the COP/MOP and the operational components of the CDM. CDM agencies should as a minimum be established in all regions representing developing nations. Existing institutions should be used where possible. The Board would also oversee the allocation of funds to adaptation projects in underdeveloped and vulnerable countries. Members of the board should be drawn from all sectors of society. **(South Africa)**

144. The representation of non-Annex I Parties on the executive board should be sufficient in order to allow the interests of such Parties to be protected. Provision could be considered for the executive board to include environmental and non-governmental bodies (including private sector organizations) from each region. **(South Africa)**

145. Chairmanship and vice-chairmanship should be on a rotational basis according to the United Nations system. Members of the board should not serve for more than two terms of one year each. The offices of the chair and vice-chair should not be filled from the same United Nations region. **(South Africa)**

146. Members elected to the executive board should serve in their personal capacity. **(South Africa)**

147. Executive board; constitution, composition, and functions; membership and rules of procedure, provisions for institutional and administrative support. The composition of the board should be defined by the COP/MOP. It should, as a minimum, have equitable regional representation and demonstrate a balance between developed and developing country membership. In view of the fact that it is managing the emissions heritage of developing countries, it is obvious that developing countries should have a clear majority in the board. It is proposed that the board comprise 11 members with at least 6 from developing nations and at least 2 from Africa. **(South Africa)**

148. The executive board of the CDM must be small (not to exceed 25 members) and composed of government representatives based on the well known, accepted and normal United Nations regional groups, taking into full account the subregional balance. The chairman of the board will not hold office for more than two terms of office of one year's duration. The chairmanship of the board shall be on rotational basis based on the United Nations systems. **(Uganda)**

E. Parties

149. AOSIS believes that the existence of capacity must be demonstrated as a prerequisite for participating in the mechanisms, and that resources should be made available to eligible Parties to meet the costs of building such capacity. **(AOSIS)**

150. Article 12 does not specifically address reporting on project activities or on the resulting CERs. In order to ensure accountability and transparency, reporting guidelines on CDM activities will need to be established for Annex I Parties and non-Annex I Parties. Project activities under Article 12 could be reported on by Parties annually. In addition, a form of reporting on project activities could occur through the national communications process for which guidelines might be needed. Annex I Parties will also need to report on CERs resulting from CDM project activities used to meet their Article 3 commitments, pursuant to Article 7 of the Protocol. **(Australia et al.)**

151. The governments of the country Parties participating in a CDM project shall report to the COP/MOP on the progress and results of the CDM project activities on a project-by-project basis, by using a uniform reporting format to be adopted by the COP/MOP. **(China)**

152. Acquisition of certified emission reduction units should be carried out in accordance with Article 3 of the Protocol, in particular its Article 3.12. Any CERs which a Party acquires in accordance with Article 12 shall be added to the assigned amount for the acquiring Party (Article 3.12). This, along with the provision in Article 3.13, rules out using CERs for international speculation, etc. **(China)**

153. Reporting and the related format shall be elaborated by the COP/MOP. In the case of the developing country Parties participating in the CDM projects, the reporting shall be carried out on a project-by-project basis. In the case of the developed country Parties participating in the CDM projects, the reporting shall not only be submitted to the COP/MOP on a project-by-project basis, but shall also be reflected in their inventories. **(China)**

154. Parties included in Annex I shall only use certified emission reductions to contribute to compliance and Parties not included in Annex I shall only benefit from project activities under Article12, if the Party:

(a) Has ratified the Kyoto Protocol

(b) Is bound by a compliance regime adopted by the COP/MOP

(c) Has not been excluded from participation in the CDM according to the procedures and mechanisms under the above-mentioned compliance regime, and is in compliance with its commitments under Article 12 of the Convention. **(Germany et al.)**

155. A Party included in Annex I shall only use certified emission reductions resulting from project activities under Article12 to contribute to compliance with its quantified emission limitation and reduction commitments under Article 3, if the Party is in compliance with its commitments under Articles 5 and 7. **(Germany et al.)**

156. Parties included in Annex I using the CDM shall report annually on their activities under Article12 within the framework of their reporting commitments under Article 7.1 and 2. Reporting under the CDM will follow the guidelines to be developed under Article 7.4. **(Germany et al.)**

157. Parties involved in CDM projects shall report in their national communications on CDM projects, on how these projects have assisted non-Annex I Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, and how these projects have assisted Annex I Parties in achieving compliance with their commitments under Article 3. **(Germany et al.)**

158. Considering that the mechanisms constitute a voluntary and cost-effective modality for Annex I Parties to reduce their emissions, they can benefit from the use of the mechanisms only if they are in compliance with the reduction commitments established under the Convention as well as in the Protocol. **(Peru)**

159. A uniform format for project-by-project reporting shall be adopted by the COP/MOP. Only projects that have been implemented may be reported. At a minimum, however, the status of implementation has to be indicated. **(Sierra Leone)**

160. Annex B Parties wishing to participate should have submitted inventories and targets should have been quantified. Inventories should include the quantification of sinks as well as any changes since 1990. (The latter is not necessarily a prerequisite for the CDM to be initiated as it can operate in the absence of carbon sink projects until methodological issues around sinks, land-use and forestry are finalized). **(South Africa)**

161. The foundation should be set against which performance may be measured. Once the inventories are in place and targets are rigorously quantified, the CDM should be applicable with a minimum of constraints. If problems are detected then the COP/MOP should identify and address them in a spirit of flexibility and learning. **(South Africa)**

162. Reporting of CDM projects should be undertaken by the CDM board, using data collated from Parties. Annual reporting should include: CDM projects initiated, completed and

abandoned; certified emission reductions achieved as a function of time; percentage emission reductions achieved as a percentage of the total reductions aimed for; regional spread of projects and related investments; unit cost of CERs; proposed modifications to CDM methodologies and procedures; quantification of trade, banking and selling of CERs. **(South Africa)**

163. Reporting. Annual reporting by the CDM agencies, via national governments to the CDM board, to the COP/MOP. **(South Africa)**

164. Switzerland believes that, for each of the three Kyoto Protocol mechanisms, there is a need for independent validation/certification. Under Article 6, each project must be validated to ensure that it meets the project eligibility criteria and has a baseline that meets agreed standards, and the resulting emission reductions must be certified after they have occurred. The same basic validation/certification requirements generally hold true for Article 12, as well. Under Article 17, the national systems for the preparation of emission inventories must be validated[4] to conform with the guidelines to be decided upon by the COP/MOP and, in the case that legal entities are authorized to participate in emissions trading, national systems for accurate tracking and accountability of trading activity by legal entities must also be validated to ensure that they meet the requirements to be specified under the rules for Article 17. Furthermore the amount of excess parts of assigned amount (PAA) units available to a Party must be certified , and certificates issued, annually (assuming a post-verification trading system). **(Switzerland)**

165. Building on existing know-how and institutions, the generally local independent "operational entities" (borrowing the terminology from the Kyoto Protocol for the CDM) could be accredited to perform the necessary validations/certifications by existing national or regional accreditation authorities designated by the COP/MOP. In the case of the CDM, Article 12.5 states that the operational entities are to be designated by the COP/ MOP, but this "designation" could occur via national/regional accreditation authorities to avoid an administrative bottleneck. Discussion of this and other possible approaches would be welcome at the forthcoming sessions of the SBSTA and the SBI. For the other mechanisms, operational entities are not explicitly mentioned, but will be needed if validation/certification is required, as proposed above. **(Switzerland)**

166. Operational entities must be accredited by designated national/regional authorities to perform validation/certification on the basis of a set of protocols (or standards) for validation or certification. These validation and certification protocols must by adopted by the COP/MOP. In the case of emissions trading and joint implementation, the secretariat might be given the task of actually issuing certificates based on the certification report by the operating entity, whereas this task might be performed by the executive board under the CDM. **(Switzerland)**

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[4] It is essential for the credibility of the emissions trading system that national emission inventory systems/data be validated by an accredited independent instance. Otherwise there is huge room for falsification of inventory data, since uncertainties of 50-100 per cent or more are not uncommon.

167. If such a system were established, it would only apply to those Parties that chose to engage in the Kyoto Protocol mechanisms, and would have to be linked to the entire system for measurement, reporting, review and compliance under the Protocol (including the expert review process under Article 8, which applies only to Annex I countries). The review process in Article 8.1 and the expert reviews under Article 8.2 might be used to spot-check the performance of the operational entities acting in those Annex I Parties engaging in joint implementation, CDM or emissions trading. The Article 8 reviews, however, could not replace the verification/certification process for the Kyoto Protocol mechanisms. **(Switzerland)**

F. Legal entities

168. The CDM is a market-driven concept that will rely heavily on private sector participation, although Article 12.9 also allows participation by public entities. **(Australia et al.)**

169. Participation in CDM project activities should be open to any private and/or public sector entity in a country wishing to participate. Guidance for participation should be provided, as necessary, by the Party within which the entity resides. **(Australia et al.)**

170. Regarding the operational entities, an effort should be made to involve the regional development banks or to obtain their full participation. The executive secretariat of the Convention should be mandated to contact these financial institutions. **(Burkina Faso)**

171. The governments shall be responsible for the public and/or private entities that may be involved in the CDM projects. **(China)**

172. Private and/or public entities can participate in the CDM with the approval of the Parties involved in CDM projects. Participation of private and/or public entities in project activities under Article 12 does not affect the responsibility of Parties included in Annex I for the fulfilment of their commitments under the Kyoto Protocol. **(Germany et al.)**

173. [...][5] **(Germany et al.)**

174. In developing countries, involving the private sector is a matter of urgency. Other needs are to define the role of that sector and measures that could create a climate conducive to its involvement. **(Senegal)**

175. Project implementation agencies should perform the following functions:

(a) Management and facilitation of project process

(b) Project brokerage

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[5] Text will be provided at a later stage.

(c) Establishment of partnerships between CDM participants

(d) Reporting to the executive board

(e) Identifying and funding adaptation projects in least developed and most vulnerable countries. **(South Africa)**

176. These agencies (project implementation agencies) will report to the executive board either directly or through the relevant Party. **(South Africa)**

177. Any legal entity should be able to acquire, bank, sell and transfer CERs as per any other market commodity. **(South Africa)**

178. Given the strong role of business and market principles in this process, private sector involvement in the CDM is critical to its success. In fact the main driver, once the policy framework and modus operandi have been established, should be the private sector. The private sector would operate as follows:

(a) Project identification, finance and execution agent;

(b) Owner, banker and trader of CERs; and

(c) Executor of projects. **(South Africa)**

179. Any entity can fulfil the above roles; as such, NGOs, CBOs (community-based organizations) etc. may also participate. It is also critical to the long-term success of the CDM that private sector entities in both developed and developing countries may identify and finance CDM projects, benefiting from the CERs so accrued. In particular, developing country entities should be able to bank such CERs for future potential application or sale as appropriate. **(South Africa)**

180. CDM agencies would be established to manage and facilitate CDM projects. Existing institutions may be used as CDM agencies if desirable. The functions of the agencies would be: to manage and facilitate project process; project brokerage; establishment of partnerships between CDM participants; reporting to the board; identifying and funding adaptation projects in least developed and most vulnerable countries. **(South Africa)**

181. There should be substantial participation by enterprises from the recipient country in the design and execution of CDM projects. **(Venezuela)**

G. Operational entities

182. In order to ensure cost-effectiveness and efficiency, the operational entities could be drawn from private sector institutions (e.g., international accounting firms/certification bodies).

It would be valuable to have multiple operational entities, as each may develop expertise in individual regions or types of projects, thereby engendering greater confidence in their results. These entities should be independent and decentralized, but required to use any guidelines established by the COP/MOP or executive board. Operational entities who fail to abide by CDM and/or executive board guidelines should lose their accreditation. **(Australia et al.)**

183. Practical functions of the operational entities would include reviewing projects based on guidelines and criteria adopted by the COP/MOP, and registering them as CDM projects. Once a project has begun, the operational entity would certify a project's emissions reductions or removals after they have occurred. Operational entities could also issue CERs. Operational entities should also submit activity reports to the executive board. **(Australia et al.)**

184. Operational entities should be accredited by the executive board based on guidance from the COP/MOP. The operational entities would be subject to all rules and guidelines governing the operation of the CDM. A list of operational entities would be maintained by the executive board and made publicly available. **(Australia et al.)**

185. To avoid conflicts of interest, operational entities that register and/or certify project activities should not be involved in project development, promotion, financing or implementation. **(Australia et al.)**

186. Guidelines and procedures will also be needed for consistent, uniform reporting by operational entities to the executive board. **(Australia et al.)**

187. Regarding the operational entities, an effort should be made to involve the regional development banks or to obtain their full participation. The executive secretariat of the Convention should be mandated to contact these financial institutions. **(Burkina Faso)**

188. Emission reductions resulting from each CDM project shall be certified by the operational entity to be designated by the COP/MOP in the light of the requirements of Article 12.5 of the Protocol and in accordance with the modalities, rules and procedures to be adopted by the COP/MOP. **(China)**

189. Operational entities shall be designated by the COP/MOP and shall be limited in number to ensure transparency and credibility. **(China)**

190. The operational entities so designated shall certify the emission reductions resulting from each CDM project activity in accordance with Article 12.5 of the Kyoto Protocol and in accordance with the modalities, rules and procedures to be adopted by the COP/MOP. Further study is needed. **(China)**

191. Operational entities shall validate the project activities under Article12 upon request of a project participant. Operational entities shall be institutionally and economically independent

from, and not entitled to participate in, the identification, development or financing of any CDM project. **(Germany et al.)**

192. All public and/or private entities involved in the project activity demonstrate that they are entitled to participate in the CDM according to paragraph 197 below. **(Germany et al.)**

193. Operational entities shall certify the emission reductions resulting from a validated project activity upon request of a project participant. Operational entities shall be institutionally and economically independent from, and not entitled to participate in, the identification, development or financing of any CDM project. **(Germany et al.)**

194. Operational entities publish their decisions on the validation of project activities in a suitable manner. **(Germany et al.)**

195. Operational entities shall inform the applicant of their decision in writing immediately after the completion of the certification process. **(Germany et al.)**

196. Operational entities publish their decisions on the certification of emission reductions in a suitable manner. **(Germany et al.)**

197. [...][6] **(Germany et al.)**

198. Trade in both CERs and ERUs needs to be tracked. International commodity exchanges, central banks or other similar organizations should be registered as operational entities to track, broker and bank ERUs and CERs. **(South Africa)**

199. Operational entities (implementing agencies of the mechanism) should be bodies in the host countries or appropriate international agencies. Host countries should be required to register their operational entity or entities with the CDM secretariat. These operational entities will be either (a) project implementation agencies, (b) certification bodies, or (c) transaction management bodies. **(South Africa)**

200. Project implementation agencies should perform the following functions:

(a) Management and facilitation of project process

(b) Project brokerage

(c) Establishment of partnerships between CDM participants

(d) Reporting to the executive board

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[6] Text will be provided at a later stage.

(e) Identifying and funding adaptation projects in least developed and most vulnerable countries. **(South Africa)**

201. These agencies will report to the executive board either directly or through the relevant Party. **(South Africa)**

202. Certification of emission reductions should be undertaken by certification bodies according to guidelines agreed by the executive board. All certification bodies should be accredited in terms of a national or international accreditation system. **(South Africa)**

203. The relation between the COP/MOP, accreditation bodies and certifying authorities needs to be structured in such a way as to ensure the independence of the certification and accreditation bodies. **(South Africa)**

204. Three options could be considered:

(a) A single international accreditation body (IAB), which reports to the executive board directly. The IAB would be responsible for accrediting suitably qualified certifying authorities in each participating country. Where they exist this would include local certifying authorities, although it is possible that international certifying authorities would be accredited in several countries. Local or regional capability would be an important factor in gaining accreditation in a particular country. The primary advantage of this structure is that it facilitates a constant standard of certification throughout all participating countries. However, this structure may be perceived by some national governments as an infringement of their sovereignty;

(b) National accreditation bodies. In this case, national accreditation bodies in each participating country would accredit certifying authorities within that country and report to the executive board directly or through the participating country Party. Although this addresses the sovereignty issue, it does introduce problems of consistent application of the certification process. In practice, this may lead to a structure where the subsidiary body is supported by an IAB, but countries insist on a national accreditation body as well. This would obviously lead to duplication of effort, with a corresponding increase in the cost of the certification process;

(c) National accreditation bodies with international recognition - the executive board to enter into recognition agreements with national accreditation bodies to ensure a consistent approach. This option could reduce the problems associated with the infringement of sovereignty (optjon (a)) or consistency problems and a duplication in work (option (b)). **(South Africa)**

205. Building on existing know-how and institutions, the generally local independent "operational entities" (borrowing the terminology from the Kyoto Protocol for the CDM) could be accredited to perform the necessary validations/certifications by existing national or regional accreditation authorities designated by the COP/MOP. In the case of the CDM, Article 12.5

states that the operational entities are to be designated by the COP/ MOP, but this "designation" could occur via national/regional accreditation authorities to avoid an administrative bottleneck. Discussion of this and other possible approaches would be welcome at the upcoming sessions of the SBSTA and SBI. For the other mechanisms, operational entities are not explicitly mentioned, but will be needed if validation/certification is required, as proposed above. **(Switzerland)**

206. Operational entities must be accredited by designated national/regional authorities to perform validation/certification on the basis of a set of protocols (or standards) for validation or certification. These validation and certification protocols must be adopted by the COP/MOP. In the case of emissions trading and joint implementation, the secretariat might be given the task of actually issuing certificates based on the certification report by the operating entity, whereas this task might be performed by the executive board under the CDM. **(Switzerland)**

H. Initiation

207. Emission reductions or removals from project activities, including activities implemented jointly (AIJ) projects, begun before the CDM is operational could be retroactively certified from the year 2000 onward, provided that the project and resulting reductions or removals meet the applicable CDM criteria and were approved by the participating Parties on the understanding that it would be developed as a CDM-type project. Further work on eligibility criteria is needed. **(Australia et al.)**

208. Article 12.10 may have negative impacts on the implementation of the developed country Parties' commitments under Article 3, and will have negative impacts on the continuation of AIJ projects. The SBSTA should be requested to study these issues and propose recommendations to cope with those negative impacts for consideration by the COP/MOP. **(China)**

209. Project activities generating emission reductions between the year 2000 and the date of adoption of the modalities and procedures for the CDM may be validated and emission reductions resulting from these validated project activities may be certified, provided the project activities and emission reductions comply with the agreed set of rules for the CDM. **(Germany et al.)**

210. Implications of Article 12.10, including implications for a possible interim phase approach to the CDM and of the activities implemented jointly under the pilot phase. This is supported, but a mechanism needs to be put in place to review all eligible projects, especially the attendant CERs or ERUs, to ensure they meet the same standards as will apply to final CDM projects. The verification process should be applied. An interim phase/early implementation for CDM is supported with projects being eligible for credits after review and verification provided that agreed rules are in place. **(South Africa)**

211. Eligibility of AIJ projects under the CDM beginning in 2000. These are not generically eligible. A review may be undertaken and they may be eligible if both the host nation and the

sponsoring nation agree to the terms of recognition. These terms may include payment to the developing nation for CERs accrued. **(South Africa)**

212. Credit (starting from 2000) for qualifying projects begun before CDM rules become effective. A review may be undertaken and they may be eligible if both the host country and the sponsoring country agree to the terms of recognition. These terms may include payment to the developing country for CERs accrued. **(South Africa)**

213. The AIJ pilot phase was launched to gain experience with international cooperation to implement climate protection projects, in order to inform policy makers (a) in deciding whether to allow joint implementation of climate protection projects for credit and (b) in developing common methodologies (e.g. for the determination of the environmental additionality of projects). The COP at its first session decided that "no credits shall accrue to any Party as a result of greenhouse gas emissions reduced or sequestered during the pilot phase from activities implemented jointly". However, the question arises as to whether projects launched under the AIJ pilot phase could subsequently qualify as joint implementation or CDM projects (note that this does not imply retroactive crediting of emission reductions achieved during the pilot phase). This issue is included in the work programme for the Kyoto Protocol mechanisms. **(Switzerland)**

214. Switzerland would like to discuss with other delegations the advantages and, in particular, any possible disadvantages that would arise if projects begun as AIJ under the pilot phase could qualify under Article 6 or Article 12 (on the condition that such projects meet all of the requirements of the respective articles of the Protocol, including approval by all Parties involved, and that credits would only be allowed from the time that joint implementation or CDM approval occurs). Without the expectation that AIJ projects might eventually qualify for credit under joint implementation or CDM. Switzerland is concerned that the private sector will have no incentive to undertake pilot projects now and that host countries will therefore have only very limited experience before the launch of the CDM and/or respectively joint implementation. It seems to us in the best interest of all countries to explicitly allow AIJ projects to qualify under the Kyoto Protocol mechanisms, not least because it would be difficult to develop effective rules to actually exclude AIJ projects and the system would discriminate against AIJ projects that may meet all eligibility requirements. **(Switzerland)**

I. Project eligibility

215. Project activities under the CDM should be comprehensive (include all project types, including reductions and removals and cover all six gases), unless a project is shown to be ineligible. **(Australia et al.)**

216. For the purposes of this paper, certification is defined as a two-step process whereby (a) projects are registered with an operational entity prior to implementation, and (b) once project activities are under way, the resulting emission reductions or removals are certified on a periodic basis. **(Australia et al.)**

217. The design of the CDM should incorporate a project registration phase. Projects would be registered with an authorized operational entity to confirm that the project meets sustainable development goals of the host country, is voluntary, provides real, measurable and long-term benefits related to the mitigation of climate change, and that the reductions in emissions are additional to any that would occur in the absence of the certified project activity. Project registration would establish the basis for ex-post calculation of credits. Actual emission reductions would be certified by the operational entity only after they occur. This registration step would remove much of the uncertainty related to project development. **(Australia et al.)**

218. In addition to the criteria listed in Article 12.5, projects would need to meet the approval criteria of each Party involved, particularly the sustainable development requirements of the host country. A Party hosting a CDM project will need to consider the relationship of the project to achieving its sustainable development objectives. A host country's decision to approve a project should constitute a determination that the project is consistent with its sustainable development objectives. **(Australia et al.)**

219. The process by which projects are approved will differ from country to country. The system should allow countries to develop their own internal mechanisms for project approval based on their domestic priorities. Some Parties may choose to institute offices similar to those under the AIJ pilot phase whose functions could include, among others, reviewing and approving project proposals. Points of contact of agencies responsible for CDM activities within a Party (for project approval, for instance) would be of great help to entities involved in a project. **(Australia et al.)**

220. Methodologies for calculating emission reductions or removals will be critical to the success of the CDM. For projects to be registered under the CDM, baselines will need to be established. Baseline methodologies will need to provide a basis for ensuring that the resulting reductions or removals are real, measurable, and have long-term mitigation and/or sequestration benefits that would not have occurred in the absence of the certified project activity. **(Australia et al.)**

221. To date, baseline discussions have focused on two approaches: project-by-project and standardized baselines. Work on baselines is currently being done in several forums that may be useful when designing methodologies for the CDM. Experience gained from the AIJ pilot phase on baselines will also be helpful. **(Australia et al.)**

222. How additionality is assessed will depend on which methodologies a project developer uses. Under a project-by-project approach, developers would have to establish a base case against which the project's emissions would be compared. If the project's emissions were below the base case, then it would be considered additional. Standardized baselines for a type of project, for example benchmarking, could be developed to distinguish between those activities that generate greenhouse gas reductions in excess of the baseline and those that do not. Activities that perform better than the benchmark would automatically be considered additional.

Transaction costs and reporting requirements are likely to vary by the approach taken. **(Australia et al.)**

223. Project participants would be required to monitor project emissions. As part of the registration process, operational entities will need to ensure that project proposals contain adequate provisions for monitoring. The data collected would be used by operational entities for certification purposes. **(Australia et al.)**

224. CDM projects shall be implemented between Annex I and non-Annex I Parties on a voluntary basis. The governments of the participating Parties shall bear the overall responsibility for the CDM project. **(China)**

225. CDM activities shall be project-based, and shall be carried out on a project-by-project basis. **(China)**

CDM projects shall be implemented in accordance with the requirements of Article 12.2, 12.3 and 12.5. **(China)**

226. CDM projects should promote the transfer of advanced technologies needed by the developing country Parties. **(China)**

227. CDM project activities should be carried out in accordance with methodological guidelines and criteria to be adopted by the COP/MOP. **(China)**

228. Funding for the CDM project shall be additional to official development assistance, GEF, and other financial commitments of the developed country Parties under the Convention, the Kyoto Protocol and other relevant international conventions and their protocols. Moreover, funding for the CDM project shall be provided by the developed country Party participating in the project to the developing country Party participating in the project on a grant basis, with the CERs acquired from the CDM project as returns for the participating developed country Party for meeting part of its quantified emission limitation and reduction commitments, in accordance with the relevant provisions of Article 12 and Article 3. **(China)**

229. Technology transfer in CDM projects shall be additional to the Annex II Parties' commitments on technology transfer to developing country Parties under the Convention. **(China)**

230. Criteria for real, measurable and long-term environmental benefits related to mitigation of climate change. This issue concerns "climate change effectiveness", and should be resolved, taking into account the additional reduction in emissions at the project level as against the baseline of the CDM project. This issue is complicated, maybe evolving with the passage of time, and needs further study. **(China)**

231. The baseline of the CDM project shall be determined reasonably to ensure the realization of an additional reduction in emissions at the project level as against the baseline of the CDM project. **(China)**

232. Only project-by-project, not sector or country baseline, shall be applied to CDM project. **(China)**

233. The issue of "additionality of emissions reductions/removals" is an important issue, which should be addressed in the light of the realization of an additional reduction in emissions at the project level as against the baseline of the CDM project. **(China)**

234. Validation is the binding assessment by an operational entity upon request of a project participant that a specific project activity under Article 12 meets the requirements laid down in the rules for the CDM, in the Kyoto Protocol and in the Convention. A project activity needs to be validated before emission reductions resulting from that project activity may be certified. **(Germany et al.)**

235. Operational entities shall validate the project activities under Article 12 upon request of a project participant. Operational entities shall be institutionally and economically independent from, and not entitled to participate in, the identification, development or financing of any CDM project. **(Germany et al.)**

236. A project activity shall be validated only if it meets all of the following requirements:

(a) All Parties involved have approved the project activity;

(b) All public and/or private entities involved in the project activity demonstrate that they are entitled to participate in the CDM according to paragraph 197 above;

(c) The project participants provide a determination of baselines to the operational entity in accordance with an appendix on baselines (to be elaborated) upon which the environmental additionality of the project activity is calculated. It must be demonstrated that the emission reductions from the project activity are real, measurable and long-term and that the emissions occurring with the project activity are lower than the emissions that would have occurred in the absence of the project activity. The latter are the baseline for the project and shall be determined according to the guidance provided for in the appendix on baselines;

(d) If public funds are used, the project participants provide information on the funding of the project activity proving that CDM investment will not result in a diversion of or competition with official development assistance and GEF funding;

(e) The Party not included in Annex I involved in the project activity confirms in a written statement how the project activity:

(i) **Assists that Party in achieving sustainable development taking into account its economic, environmental and social conditions according to its own priorities and needs and the need to minimize adverse environmental, social and economic effects, taking into account existing guidance for sustainable development;**

(ii) Contributes to the ultimate objective of the Convention;

(f) The project activity and its results are consistent with all relevant international agreements relating to sustainable development to which the Parties involved are a Party;

(g) The project participants provide information to the operational entity on their procedures for accurate, systematic and periodic monitoring of the project in accordance with the guidance provided for in an appendix on monitoring (to be elaborated);

(h) Operational entities publish their decisions on the validation of project activities in a suitable manner. **(Germany et al.)**

237. The project participants provide a determination of baselines to the operational entity in accordance with the appendix on baselines which the environmental additionality of the project activity is calculated. It must be demonstrated that the emission reductions from the project activity are real, measurable and long-term and that the emissions occurring with the project activity are lower than the emissions that would have occurred in the absence of the project activity. The latter are the baseline for the project and shall be determined according to the guidance provided for in the appendix on baselines. **(Germany et al.)**

238. It is important to consider the regional differences for the baseline calculation, using as a basis for the adoption of the baseline, the average of the technology types applied in the region. **(Peru)**

239. In calculating the regional average for the CDM as well as for joint implementation, Annex II Parties to the Convention will be excluded from the calculation. **(Peru)**

240. To determine CO_2-equivalent metric tons reduction, regional average emissions are compared with the project technology emissions. **(Peru)**

241. For the calculation of the emission reduction unit (ERUs) in the case of joint implementation or certified emission reductions (CERs) in the case of the CDM, the procedure will be as follows:

(a) The difference between project emission levels and the OECD average will be converted to ERUs or certified CERs, for the benefit of the Annex I Party, as appropriate;

(b) CO_2-equivalent metric tons reduced that are not assigned to the investor country, will form part of a future options system for the country in which the project is accomplished.

HYPOTHETICAL CASE

Power plant fuel conversion in Peru.

Latin America Average	OECD Average	CDM/ JI project	Credits
550	450	400	450-400=50

The 100 units that are reduced but are not assigned to the Annex I Party are banked by the recipient country.

(Peru)

242. Sierra Leone supports the setting of national baselines by countries, which may be backed by project-by-project baselines. We support that methodological guidelines and criteria on this matter are to be adopted by the COP/MOP. **(Sierra Leone)**

243. A project proposal as negotiated and approved by both host and investor country is submitted for approval. Only projects which have been "certified" to comply with the requirements of CDM projects should be approved. (This certification should be handled differently from certification of the outcome of the project, which should take place in terms of normal certification practice). **(South Africa)**

244. Projects should be eligible for definition as CDM projects if they meet a selection of the following criteria - as tested by the CDM agency:

(a) Contribution to sustainable development

(b) Alignment with development objectives of host country

(c) Reduction/ avoidance of emissions against a defined baseline **(South Africa)**

245. Evaluation of projects for CDM eligibility should be done by a relevant entity in the host country. **(South Africa)**

246. An approved project should be registered and the emission reduction/avoidance to be achieved recorded as the starting-point for certification of project performance. In order to give effect to this proposal, guidelines are required for project approval procedures. **(South Africa)**

247. The project proposal should contain information covering the following issues:

(a) Additionality (extent to which emissions would be reduced and sustainable development promoted relative to the situation in the absence of the project)

(b) Sustainable development indicators

(c) Baseline: internationally agreed criteria are required

(d) Impact analyses

(e) Confirmation of local stakeholder involvement

(f) Externalities beyond the host country borders

(g) Confirmation that adequate local capacity exists or will be developed

(h) Potential for long-term climate change mitigation

(i) Supplementarity (extent to which achievement of emission reduction targets of an Annex B Party, to be met by domestic action, is supplemented by the project)

(j) Baseline and project scenario (this includes the level of sustainable development indicators before project certification)

(k) Technology viability

(l) Confirmation of secured financing (except in cases where assistance in terms of Article 12.6 is being requested, in which case the request will be included)

(m) Monitoring protocol:

(i) What it monitors

(ii) Methodology to be used

(iii) Reporting requirements

(iv) Calibration of test and measuring equipment

(n) Timeframe for verification and certification. **(South Africa)**

248. Projects should be eligible for definition as CDM projects if they meet a selection of the following criteria – as tested by the CDM implementing agency: contribution to sustainable

development; adaptation to negative impacts of climate change; aligned with development objectives of host nation; and reduction of emissions against a defined baseline. **(South Africa)**

249. Approval by involved Parties of project. Approval required from: local CDM agency; host government private sector investors; adaptation fund if appropriate. Approved projects are then registered with the secretariat for reporting to the board. **(South Africa)**

250. Certification of project activities and reductions. Detailed project activities do not require certification, although all projects need to be registered to define extent of regional balance and allocations to adaptation activities. Reductions require certification according to the rules, as do trades in CERs. **(South Africa)**

251. The determination of baselines is an important aspect of project certification and in view of difficulties around this issue, needs to be dealt with separately. **(South Africa)**

252. It is intended that the CDM be used to create an enabling environment for the overcoming of barriers to projects which would not happen in its absence and which meet the criteria listed in paragraph 245 above. It is proposed that a mechanistic baseline be defined as emissions projected in the absence of a project. This will require the establishment of standard emission quantification methodologies; however, these will be the same methodologies as used for certification. Existing approaches should be used as the basis. **(South Africa)**

253. Baselines need to be established at national level as per national communications, and then on a project-by-project basis; baseline methodologies should be simple and mechanistic. Environmental additionalities should be noted in the description of the project, but it is felt that they are covered under the sustainable development consideration. **(South Africa)**

254. Determination of additionality of emission reductions/removals as per baseline definition. Emissions without the project subtracted from emissions with the project against an established baseline. If a project is accepted as a CDM project the additionality applies by default. **(South Africa)**

255. CDM and joint implementation projects must lead to concrete, verifiable and certifiable GHG reductions, avoidance or sequestration. Annex I Parties shall not convert ongoing projects into CDM or joint implementation projects. Funds accruing from emissions trading must be used by recipient Parties to mitigate GHG emissions so as to ensure global environmental benefit. **(Uganda)**

256. The CDM should be implemented project-by-project, and not relative to a sectoral or national baseline, which would imply a ceiling on recipient countries' development. **(Venezuela)**

257. For recipient countries, projects under this mechanism should neither add a burden to that of development nor entail a long-term environmental debt. **(Venezuela)**

258. All pre-feasibility studies for projects under CDM should include: estimation of the project's long-term economic and social impacts and of its cost; estimation of the increase in emission reductions by comparison with those attainable by other means; determination of the responsibilities to be borne by the investing party and the recipient of the investment respectively. **(Venezuela)**

J. Contribution to sustainable development

259. In addition to the criteria listed in Article 12.5, projects would need to meet the approval criteria of each Party involved, particularly the sustainable development requirements of the host country. A Party hosting a CDM project will need to consider the relationship of the project to achieving its sustainable development objectives. A host country's decision to approve a project should constitute a determination that the project is consistent with its sustainable development objectives. **(Australia et al.)**

260. To facilitate the examination and financing of projects, the executive board should devise a simple project-presentation framework for use by developing countries. To give all Parties the same chance, this framework should, unlike its Global Environment Facility counterpart, be made simultaneously available in all United Nations languages. Account should be taken of the criteria for assigning countries to the developing, least-developed, small-island and vulnerable categories and of the sustainable-human-development indicators proposed below. In addition, developing countries should be allowed a two- or three-year transitional period in which to select an official model for assessing vulnerability, the findings from which would serve as selection criteria (as in the case of the Sahel, not all countries yet have access to digital or mathematical models for vulnerability assessment). **(Burkina Faso)**

261. Sustainable-human-development indicators:

(a) Literacy rate;

(b) Enrolment rate at all levels of education;

(c) Life expectancy at birth;

(d) Per capita GDP. **(Burkina Faso)**

262. Priority areas for consideration by States in drawing up sustainable-human-development strategies or programmes:

(a) Poverty alleviation;

(b) Food security;

(c) Energy security;

(d) Job creation;

(e) Governance;

(f) Health, training, education;

(g) Environment;

(h) Research and development. **(Burkina Faso)**

263. Africa being recognized by the IPCC as a region that is very sensitive vulnerable to climate change, Burkina Faso suggests that 40 per cent of the available money be allocated to eligible African countries. **(Burkina Faso)**

264. Whether a CDM project could promote sustainable development of a developing country Party shall be decided by the developing country Party itself, not by other Parties or international institutions. **(China)**

265. The Party not included in Annex I involved in the project activity confirms in a written statement how the project activity assists that Party in achieving sustainable development, taking into account its economic, environmental and social conditions according to its own priorities and needs and the need to minimize adverse environmental, social and economic effects, taking into account existing guidance for sustainable development. **(Germany et al.)**

266. The project activity and its results are consistent with all relevant international agreements relating to sustainable development to which the Parties involved are a party. **(Germany et al.)**

267. The CDM requires a comprehensive understanding to ensure that it delivers benefits to developing country Parties in accordance with national environmental and developmental goals, with the projects being additional to overseas development assistance. The CDM approach has to be project-by-project. The cleaner technologies to be made available must be state-of-the-art. The CDM should not be cast in a light which subsumes the other provisions in the Convention pertaining to transfer of technology and financial resources. **(India)**

268. The term of sustainable development as referred to under Article 12 needs to be instrumentalized. More specifically, sustainable development should refer to technical feasibility, economic feasibility, social feasibility, environmental feasibility, and market feasibility. In the last instance, the host country decides whether a project is sustainable. **(Sierra Leone)**

269. The CDM furthermore needs to be developed in such a way that it fulfils the promise of promoting sustainable development and adaptation programmes in developing countries, as well as achieving compliance with emission targets in developed countries. **(South Africa)**

270. The primary objectives of sustainable development in many developing countries, including South Africa, remain the eradication of poverty and the fulfilment of basic human needs. **(South Africa)**

271. In order to achieve the objectives of sustainable development, the CDM should be developed in such a way as to reinforce other multi- and bilateral funding mechanisms, while not further contributing to the foreign debt trap that exists in many countries, particularly in Africa. **(South Africa)**

272. Each country, developed and developing, should include a sustainability strategy in its national communication. CDM-based projects should be aligned with this strategy. Alternatively, define criteria for sustainable development. In both cases a holistic view should be taken of sustainability. Actions which may not be sustainable in the short-term, may put an activity, sector or country on the path to sustainability. **(South Africa)**

273. Criteria for sustainable development. These will vary from country to country and should be defined on a local basis. If a country accepts a project as a contribution to sustainability, then that should be adequate. **(South Africa)**

274. Approval by involved Parties of sustainable development. To be defined by host government. COP/MOP overseeing role is not needed here as each country knows its own sustainability issues best. **(South Africa)**

275. Among all mechanisms of the Kyoto Protocol, only the CDM is aimed at the support of non-Annex I Parties. The document resulting from negotiations on CDM should facilitate the achievement of the ultimate objective of the Convention and the sustainable development of all these Parties. As each of these Parties has a limited potential for certified emission reductions, the developing countries should select the most important fields of the CDM projects' realization, which follow the sustainable development of the above countries. That is why one of the components of the preliminary working out of projects can be the expert evaluation of the expediency of the project realization and recommendations on the optimum use of CER units. **(Uzbekistan)**

276. CDM projects should, in the first instance, contribute towards the sustainable development of recipient countries and should not merely mean emission reductions. Only countries themselves, in free exercise of their sovereignty, can decide whether a project will or will not contribute towards their sustainable development and whether it is consistent with their development priorities. **(Venezuela)**

K. Sequestration

277. Outcome of methodological work on Article 3.3 and 3.4: This issue needs further study in view of its complexity. **(China)**

278. There are important qualitative differences between emissions reductions, emissions avoidance and emissions sequestration (or uptake). We are particularly concerned that the sequestration of greenhouse gas emissions cannot be guaranteed over geological time-frames, and understand that there remain significant uncertainties in accounting for the uptake of emissions, for example, through forests. In order to guarantee the issuing of high quality CER units from CDM projects, sequestration projects should not be allowed under the CDM. **(Sierra Leone)**

279. The clarification of land-use, forestry and sinks issues needs to be fed into the CDM guidelines and procedures. The inclusion of sinks is supported, subject to rigorous methodologies for sink quantification and the respective timelines being established. These methodologies also need to deal with situations that arise after a natural disaster like a fire, where suddenly a "sink" country could start emitting in six months more than an Annex B Party does in a normal year. **(South Africa)**

280. Sinks may be included subject to the establishment of rigorous quantification methodologies. **(South Africa)**

L. Technology transfer

281. Technology transfer in CDM projects shall be additional to the Annex II Parties' commitments on technology transfer to developing country Parties under the Convention. **(China)**

282. The mechanism will play a key role in the transfer of resources and technology between the private sectors (of all Parties) in the future reduction of GHGs. **(Mauritius)**

283. Information on clean technologies and on the scope for mitigation and adaptation must be widely disseminated. Priorities should be given to activities to strengthen Parties' capacity to improve transfer of clean technologies with a view to identifying specific tasks in that regard -whence the proposal to establish a technology-transfer mechanism that is much better suited to optimum, efficient implementation. **(Senegal)**

284. The CDM should encourage and promote the transfer of up-to-date technologies. Transfer of technology under the CDM should be in addition to the requirements of transfer of technology in the Convention. **(Sierra Leone)**

285. Technology transfer is regarded as an integral part of sustainable development. The availability of scientific and technological information and access to environmentally sound technologies are essential requirements for sustainable development. Access to and transfer of environmentally sound technology should be promoted by the CDM, while at the same time recognizing the need to protect intellectual property rights. As much of the advanced environmentally sound technology is developed and held by the private sector, private sector participation in the CDM should be promoted and facilitated. **(South Africa)**

286. The mechanism should seek to overcome current constraints on the transfer of both publicly and privately held technologies. **(South Africa)**

287. For real assistance to the developing countries in the selection of CDM projects, it is necessary to create a bank of the technological proposals of Annex I Parties. It is also required to envisage a series of regional training workshops for the developing countries for the consideration of the specific features of CDM projects realization, the procedure of certification of emission reduction, its marketing and estimation of CER unit cost. **(Uzbekistan)**

288. In our opinion, the parts of the document which specify the aspects and priorities should fix and comprehensively define the conditions and specific features of the development and transfer of technologies on this mechanism, the strengthening of potential and realization of ecological benefit. **(Uzbekistan)**

M. Project financing

289. Additional incentives need to be created to attract the participation of and investment in Parties that are often marginalized by purely market-based instruments. **(AOSIS)**

290. There are several ways in which projects could be developed and financed. Projects could be undertaken provided that the Party(ies) and/or their legal entity(ies) have met all applicable criteria and that certified emission reductions from all CDM activities are subject to the share of proceeds as per Article 12.8. Certified emission reductions would be apportioned among project participants according to terms of contractual agreements. Projects could be financed through private and/or public sector investment and financing, or if necessary by grouping small projects together to create an investment portfolio. These portfolios could be managed by private sector institutions with the appropriate expertise. In order to ensure a robust system with the broadest participation possible, these and other options should be considered. **(Australia et al.)**

291. Provisions as necessary to assist in arranging funding of certified project activities could be achieved through the following: listing project opportunities around the world, providing information on financial resources, matching projects with potential investors or providing information on the various ways to develop and finance projects. **(Australia et al.)**

292. Funding for the CDM project shall be additional to official development assistance, GEF, and other financial commitments of the developed country Parties under the Convention, the Kyoto Protocol and other relevant international conventions and their protocols. Moreover, funding for the CDM project shall be provided by the developed country Party participating in the project to the developing country Party participating in the project on a grant basis, with the CERs acquired from the CDM project as returns for the participating developed country Party for meeting part of its quantified emission limitation and reduction commitments, in accordance with the relevant provisions of Article 12 and Article 3 of the Kyoto Protocol. **(China)**

293. It should be ensured that certain numbers of CDM projects should be implemented in the least developed country Parties to meet their special needs. This issue shall be resolved in conjunction with the implementation of Article 4.8 and 4.9 of the Convention. **(China)**

294. The structure and functions of the CDM should be in the form of a multilateral arrangement, a clearing-house and a fund, that would be proactive enough to assure geographical distribution of CDM projects, equity, efficiency and sustainable development. The structure (fund/clearing-house) may accommodate both public and private investment funds. The structure does not necessarily have to follow the GEF pattern nor fall within the ambit of the World Bank. The clearing-house should be the coordinating office. Consideration should be given to using existing facilities/ institutions at national, subregional and regional levels that are up to the tasks of the clearing-house. The structure could serve to facilitate the following:

(a) Selection and screening of projects and other matters involving stakeholders and other interested parties

(b) Resource mobilization and utilization

(c) Awareness creation

(d) Organizing forums for CDM policy discussion and formulation and networking with appropriate institutions

(e) Formulation of CDM plans

(f) Information/contact bureau **(The Gambia)**

295. Georgia requests the international organizations and funds, which in return for their financial support to the developing countries and the countries in transition strongly request them to implement severe taxation policies, to allow such countries to use more flexible taxation policies for the projects realized under the clean development mechanism and for technology transfer process facilitating the CDM and encouraging the participation of foreign and indigenous private sectors in these processes. **(Georgia)**

296. Georgia requests the governments (the legislative bodies) of Annex II Parties to make suitable changes and amendments to the legislation and regulatory acts for taxation facilitating the CDM and encouraging the participation of their own private sectors in this mechanism and in technology transfer. **(Georgia)**

297. If public funds are used, the project participants provide information on the funding of the project activity proving that CDM investment will not result in a diversion of or competition with official development assistance and GEF funding. **(Germany et al.)**

298. CDM funding should be made in addition to existing overseas development assistance and GEF funding. In order to guarantee this, a reporting system linked with national communications should be established, which is capable of measuring additionality. Both recipient and donor countries should report in a detailed format, which goes over and beyond the current reporting under the heading of technical and financial assistance. In order to do so, a methodological system should be developed that is capable of measuring such additionality, and should be decided upon by the COP/MOP. **(Sierra Leone)**

299. A certain number of projects should be earmarked for the least developed countries that are not likely to attract foreign investments. **(Sierra Leone)**

300. Funding for CDM projects should be additional to existing overseas development assistance. It should however be noted that the majority of CDM funding, apart from seed funding, should be sourced as FDI. As such, the issue of additionality as applied to funding is not significant. Any seed funding may be sourced from overseas development assistance or the GEF. **(South Africa)**

301. Should there be any distinction between public/private funding? A distinction is not necessary and is likely to discourage the private sector. **(South Africa)**

302. Criteria and procedures for arranging funding for certified project activities. Project activities aimed at emission reductions should be driven by cost factors – if it is cost-effective then it will happen. As such these will be FDI-financed projects. **(South Africa)**

303. It is proposed that a number of agencies be formed and that these fund their own operations out of the proceeds of projects, but that initial seed funds be provided, for example from the GEF. It would be desirable for CDM agencies to be established in each developing country but regional agencies may be more appropriate. All agencies should be registered with the COP/MOP as operational entities. Once the CDM agencies are established, their ongoing viability, and, as such, the viability of the CDM, will be determined by the business principles under which they operate. This will largely be driven by market forces, in particular the value attached to CERs and the emission reduction targets set. The more ambitious the targets, the higher the value of CERs, especially long-term ones, and the greater the probability of success of the CDM. **(South Africa)**

304. The CDM has to address the needs of the least developed countries as well as the needs of those most vulnerable to negative impacts of climate change. In some areas these needs may differ, but generally they are congruent. In particular, the CDM needs to make provision for local capacity-building as well as adaptation projects. Capacity-building needs to focus on the ability to define, structure and implement CDM projects in such a way as to ensure the equitable access of all countries to the mechanism. Adaptation projects need to focus on long-term sustainability in the areas of: food security energy security; disaster response; water security; flood prevention; and infrastructure development and enhancement, especially in building

redundancy into infrastructures so as to make them more robust in meeting the variability associated with climate change. **(South Africa)**

305. The CDM shall operate in a mixed mode, that is, multilateral, bilateral as well as a fund. Irrespective of the form CDM takes, the same rules, procedures and principles must be applied to the other flexible mechanisms, where applicable, to ensure credibility and quality of the credits. **(Uganda)**

306. CDM financial flows must be additional to overseas development assistance and GEF funding. Annex I Parties participating in any of the three flexible mechanisms must give concrete information to confirm that their overseas development assistance is not declining as a result of their participation in any of the flexible mechanisms. **(Uganda)**

307. The funds available for financing CDM projects should be new and additional, should not entail renewal of existing funds or movement between funds, and should be distinct from Development Assistance. **(Venezuela)**

308. CDM projects should not add to the long-term cost of emission reduction in recipient countries. **(Venezuela)**

N. Project monitoring

309. Project participants would be required to monitor project emissions. As part of the registration process, operational entities will need to ensure that project proposals contain adequate provisions for monitoring. The data collected would be used by operational entities for certification purposes. **(Australia et al.)**

310. The project participants provide information to the operational entity on their procedures for accurate, systematic and periodic monitoring of the project in accordance with the guidance provided for in the appendix on monitoring. **(Germany et al.)**

311. Projects should be periodically monitored to ensure achievement of the actual emissions achieved, using the agreed methodology included in the monitoring protocol and the achievement of the sustainability criteria set out in the project proposal. **(South Africa)**

312. Guidelines for monitoring protocols should be agreed and adopted by the COP/MOP. **(South Africa)**

O. Definition of certified emission reduction (CER)

313. Certified emission reductions should be issued in standardized units of one metric ton of carbon dioxide equivalent (calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5 of the Protocol). To simplify

tracking of the CERs they should be serialized. This number could include information on the host country, the project, the year of issuance and the certifier. **(Australia et al.)**

314. In accordance with Article 3.12 any certified emission reductions which a Party acquires from another Party in accordance with the provisions of Article 12 shall be added to the assigned amount for the acquiring Party. **(Germany et al.)**

P. Verification

315. Participants in any transaction must be able to demonstrate the genuineness of any allowance or offset before it can be added to or subtracted from an assigned amount. **(AOSIS)**

316. AOSIS believes that the effective operation of the mechanism's and Protocol's procedures for reporting, monitoring and verification are inextricably interlinked. Before an emission reduction unit generated in any Party can be offset against any part of an amount assigned to any other Party, the rules adopted under Articles 4, 6, 12 or 17 for verification, reporting and accountability must provide a basis for demonstrating that the regulatory mechanisms in place in both Parties are effective. **(AOSIS)**

317. The rules for verification, reporting and non-compliance and accountability should either be harmonized between the participating States at the domestic level, or the intervention of regional or international rules with equivalent 'bite' will be necessary. Furthermore, because there will be a shared, global interest of all Parties to ensure that arrangements between two or more Parties are jointly achieving the relevant part of an assigned amount, the Protocol must provide multilateral oversight to ensure verification, reporting and accountability. **(AOSIS)**

318. Article 12.7 calls for «independent auditing and verification of project activities». When designing modalities for auditing and verification, it will be important to bear in mind that the frequency of audits will have a direct impact on the cost-effectiveness of the CDM. It is also not clear that all projects need to be continuously audited in order to ensure the environmental objectives of the CDM. Clear definitions and requirements need to be identified to define the scope, intensity and frequency of auditing and verification. Possible options could include auditing on a periodic or random basis. **(Australia et al.)**

319. Article 12.7 states that the COP/MOP «shall elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities.» Independent auditing will play a critical role in ensuring the environmental credibility of the mechanism. **(Australia et al.)**

320. The systems for independent auditing and verification of CDM project activities, including modalities and procedures, shall be elaborated by the COP/MOP at its first session, with the objective of ensuring the transparency, efficiency and accountability. **(China)**

321. Established systems should be used as the basis for certification and verification. **(South Africa)**

322. Definitions:

(a) Accreditation: the recognition, by a responsible authority, that an impartial body is competent to undertake defined activities.

(b) Certification: an authoritative act by which an independent accredited body documents that a process or procedure is compliant with pre-set standards.

(c) Verification: confirmation, by examination and provision of objective evidence, that results have been achieved or that specific requirements have been fulfilled.

(d) Monitoring: the systematic surveillance and measurement of defined parameters. **(South Africa)**

323. A certification body (third party) should verify the performance of the project in accordance with a monitoring protocol. Practical implementation will require a verification protocol to be formulated and adopted in terms of Article 12.7 on CDM projects. **(South Africa)**

324. An accredited certifying authority should certify the verified performance according to a certification protocol to be formulated and adopted for use in terms of Article 12.7. **(South Africa)**

325. A certificate is then issued, stating the achievement of the emissions reduced or avoided. **(South Africa)**

326. Certified emission reductions or avoidance amounts achieved by the project are converted into certified emission reductions (CERs) which will be fungible (exchangeable) with assigned amounts (ERUs) and as such be used to achieve compliance, banked or traded in the same way as assigned amounts. **(South Africa)**

327. Systems for independent auditing and verification of project activities. Current internationally recognized approaches for auditing and verification should be applied. **(South Africa)**

328. Switzerland believes that, for each of the three Kyoto Protocol mechanisms, there is a need for independent validation/certification. **(Switzerland)**

329. Under Article 6, each project must be validated to ensure that it meets the project eligibility criteria and has a baseline that meets agreed standards, and the resulting emission reductions must be certified after they have occurred. The same basic validation/certification requirements generally hold true for Article 12 as well. **(Switzerland)**

Q. Certification

330. AOSIS has repeatedly stressed that any modalities, rules and guidelines developed for the Protocol's mechanisms must aim to ensure, as their primary objective, that combined emission reduction obligations reflected in Annex B are not undermined. This requires the setting of rules that ensure the effective equivalence in quality of any parts of assigned amount (PAA), emission reductions units and certified emission reductions that are allowed to be exchanged through the Protocol's mechanisms. **(AOSIS)**

331. AOSIS believes that in order to preserve the environmental effectiveness of the commitments agreed in Kyoto, Parties should be able to exchange parts of assigned amount only under circumstances in which the emission reductions involved meet standard and harmonized criteria. Any PAA, CER or ERU entering into the system should be clearly identified by its emissions value, date and country of origin. The value of any allowance or offset traded should depend on the ability of the issuer of the allowance or offset to demonstrate the genuineness of the emission reductions it represents. **(AOSIS)**

332. Operational entities would certify emission reductions periodically, possibly on a yearly basis, after the reductions or removals have actually occurred. Article 12 is unclear, however, as to how the CERs should be issued. Since the operational entities certify the emission reductions after they have occurred, it would be advantageous to have them issue the CERs. In this case, the CER could include a designation as to who had issued it. Guidelines and procedures will also be needed for consistent, uniform reporting by operational entities to the executive board. **(Australia et al.)**

333. Certified emission reductions should be issued in standardized units of one metric ton of carbon dioxide equivalent (calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5 of the Protocol). To simplify tracking of the CERs they should be serialized. This number could include information on the host country, the project, the year of issuance and the certifier. **(Australia et al.)**

334. The concept of "fungibility" among the three mechanisms of the Kyoto Protocol is totally unacceptable. **(China)**

335. Certification is the binding assessment by an operational entity upon request of a project participant of how many additional, real, measurable and long-term emission reductions have resulted from a validated project activity. The certification process concludes with the issuing of certificates for these emission reductions. **(Germany et al.)**

336. Operational entities shall certify the emission reductions resulting from a validated project activity upon request of a project participant. Operational entities shall be institutionally and economically independent from, and not entitled to participate in, the identification, development or financing of any CDM project. **(Germany et al.)**

337. Additional emission reductions resulting from a project activity shall be calculated on the basis of the baselines set up according to paragraph 236 (c) above. They shall be certified after they have occurred, only if:

(a) A participant in the project activity applies for the certification of the emission reductions resulting from the project activity during a specific period of time;

(b) The project activity has been validated and continues to meet the requirements under paragraphs 235-237 above;

(c) All Parties involved are entitled to participate in the CDM according to paragraph 154-155 above;

(d) The applicant submits the necessary monitored data proving that:

(i) The project activity has resulted in emission reductions that are additional to any that would have occurred in the absence of the project activity;

(ii) These emission reductions are real, measurable and long-term. **(Germany et al.)**

338. Issued certificates shall contain the following information and data:

(a) The project activity and the project participants, including the Parties involved;

(b) The number of certified emission reduction units that have resulted from the project activity and their serial numbers. **(Germany et al.)**

339. Emission reductions shall be denominated in emission reduction units. One certified emission reduction unit shall be equal to one metric ton of CO_2-equivalent emissions calculated using the global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5.3. **(Germany et al.)**

340. Each certified emission reduction unit shall have a unique serial number that reflects the project activity, country of origin, the year of certification and the certifying operational entity. **(Germany et al.)**

341. Operational entities shall inform the applicant of their decision in writing immediately after the completion of the certification process. **(Germany et al.)**

342. Operational entities publish their decisions on the certification of emission reductions in a suitable manner. **(Germany et al.)**

343. All gases should be included, calculated as CO_2 corrected for global warming potential. Any uncertainty in emission data, which may exist with respect to some of the gases, should be dealt with through the guidelines issued by the IPCC. **(South Africa)**

344. CERs may be defined as the verified reduction in emissions achieved against a specific project baseline, as a function of time. The CER may also include variable emission reductions over time, e.g. xxx tons of CO_2-equivalent per annum for yyy years and zzz tons of CO_2-equivalent for aaa years. **(South Africa)**

345. CERs relate only to CDM projects. They need to be equated to emission reduction units. It is proposed that CERs become ERUs when an entity or individual intends applying them against emission reduction targets such as those established under the Kyoto Protocol. **(South Africa)**

346. Projects which meet the requirements as per paragraph 245 above are defined as CDM projects. Criteria against which certification is required are both quantitative and qualitative. The certification needs to judge whether a project meets the criteria as defined in paragraph 245 above (qualitative, i.e. yes or no); the emission reductions achieved need then to be quantified, and this quantification needs to include an annual amount as well as a duration, e.g. xxx tons CO_2 equivalent per annum for yyy years. This certification needs to be as simple as possible but the quantification and duration of emission reductions needs to be extremely rigorous. Certification needs to take into account the reduction in increase as well as absolute reduction. **(South Africa)**

347. Trade in both CERs and ERUs needs to be tracked by a mechanism, possibly the CDM agencies, national central banks or other agencies as identified by the respective governments. **(South Africa)**

348. Measures should be equivalent, and interchangeability across mechanisms is supported, subject to boundary conditions not being exceeded. Criteria for exchange across mechanisms should be established. **(South Africa)**

349. All six gases should be included, with CERs defined in terms of CO_2-equivalents. The IPCC to define conservatively the constants to be used. **(South Africa)**

R. Registry

350. Issued certificates shall contain information and data on the project activity and the project participants, including the Parties involved; the number of certified emission reduction units that have resulted from the project activity and their serial numbers. **(Germany et al.)**

351. International commodity exchanges, central banks or other similar organizations should be registered as operational entities to track, broker and bank ERUs and CERs. **(South Africa)**

352. Any legal entity should be able to acquire, bank, sell and transfer CERs like any other market commodity. **(South Africa)**

353. A mechanism needs to be put in place to determine who holds valid CERs at any one time, both to track the performance of the mechanism and to define compliance with such targets as those of the Kyoto Protocol. This entity could be a national central bank or similar institution. **(South Africa)**

354. Some tracking mechanism is required to track the continued applicability of ERUs and CERs. This mechanism can also be used to track the impacts of projects and report to the COP/MOP. **(South Africa)**

355. A mechanism needs to be put in place to determine who holds valid CERs at any one time, both to track the performance of the mechanism and to define compliance with such targets as those of the Kyoto Protocol. It is proposed that existing institutional mechanisms for trading and banking commodities should be investigated as the basis for tracking the creation, trading and banking of CERs and ERUs. For developing nations, this would typically only apply to the CDM, but developed nations would also need to include ERUs developed under Articles 6 and 17. **(South Africa)**

356. International commodity exchanges, central banks or other similar organizations should be registered as operational entities to track, broker and bank ERUs and CERs. Certification bodies should be registered as operational entities to undertake verification, certification and auditing functions according to guidelines adopted by the COP/MOP. **(South Africa)**

S. Relationship to AIJ pilot phase

357. Experience from the AIJ pilot phase, and from the domestic use of similar 'mechanisms', demonstrates that sophisticated means of monitoring, reporting and verifying emissions will be required of any country wishing to host or transfer emission reductions. **(AOSIS)**

358. Project activities under the CDM should be comprehensive (include all project types, including reductions and removals and cover all six gases), unless a project is shown to be ineligible. Emission reductions or removals from project activities, including activities implemented jointly (AIJ) projects, begun before the CDM is operational could be retroactively certified from the year 2000 onward, provided that the project and resulting reductions or removals meet the applicable CDM criteria and were approved by the participating Parties on the understanding that it would be developed as a CDM-type project. Further work on eligibility criteria is needed. **(Australia et al.)**

359. Experience gained from the AIJ pilot phase on baselines will also be helpful. **(Australia et al.)**

360. Article 12.10 may have negative impacts on the implementation of the developed country Parties' commitments under Article 3, and will have negative impacts on the continuation of AIJ projects. The SBSTA should be requested to study these issues and propose recommendations to cope with those negative impacts for consideration by the COP/MOP. **(China)**

361. A number of Parties, Senegal among them, were virtually overlooked during the pilot phase of AIJ. Procedures are needed to ensure that CDM is a fair mechanism, particularly as regards non-Annex I Parties, and it is important to develop projects conducive to building the national or subregional infrastructure in Africa. **(Senegal)**

362. Eligibility of AIJ projects under the CDM beginning in 2000. These are not generically eligible. A review may be undertaken and they may be eligible if both the host nation and the sponsoring nation agree to the terms of recognition. These terms may include payment to the developing nation for CERs accrued. **(South Africa)**

363. The AIJ pilot phase was launched to gain experience with international co-operation to implement climate protection projects, in order to inform policy makers (i) in deciding whether to allow joint implementation of climate protection projects for credit and (ii) in developing common methodologies (e.g. for the determination of the environmental additionality of projects). The Conference of Parties, at its first session, decided that "no credits shall accrue to any Party as a result of greenhouse gas emissions reduced or sequestered during the pilot phase from activities implemented jointly". However, the question arises as to whether projects launched under the AIJ pilot phase could subsequently qualify as joint implementation or CDM projects (note that this does not imply retroactive crediting of emissions reductions achieved during the pilot phase). This issue is included in the work programme for the mechanisms under the Kyoto Protocol. **(Switzerland)**

364. Switzerland would like to discuss with other delegations the advantages, and in particular, any possible disadvantages, that would arise if projects begun as AIJ under the pilot phase could qualify under Article 6 or Article 12 (on the condition that such projects meet all of the requirements of the relevant article, including approval by all Parties involved, and that credits would only be allowed from the time that joint implementation or CDM approval occurs). Without the expectation that AIJ projects might eventually qualify for credit under joint implementation or CDM, there is a concern that the private sector will have no incentive to undertake pilot projects now and that host countries will, therefore, have only very limited experience before the launch of the CDM and/or respectively, joint implementation. It seems to us in the best interest of all countries to explicitly allow AIJ projects to qualify under the Kyoto Protocol mechanisms, not the least because it would be difficult to develop effective rules to actually exclude AIJ projects and the system would discriminate against AIJ projects that may meet all eligibility requirements. **(Switzerland)**

T. Levies

365. AOSIS believes strongly that adaptation surcharges should be assessed against all transactions eligible under the Protocol's mechanisms. The principle of common but differentiated responsibilities, and the obligation in Article 4.4 of the Convention, provide sufficient basis for ensuring that those mechanisms open only to Annex I Parties should share the responsibility of generating adaptation resources. AOSIS believes that the concerns of some Parties that high surcharges will dampen the market's interest in the mechanisms can be answered by agreeing a range of charges that could be adjusted by the COP/MOP and/or the executive board of the CDM in response to market signals. **(AOSIS)**

366. Article 12.8 states that the COP/MOP shall ensure that a share of the proceeds from certified project activities will be used to cover administrative expenses and to assist particularly vulnerable developing countries to meet the costs of adaptation. In order to achieve this, the «share of the proceeds» should be calculated as a percentage of the CERs generated by a particular project in a given year. This should be restricted to a limited percentage to ensure that the CDM remains a cost-effective vehicle for investment. **(Australia et al.)**

367. Keeping the administrative costs to a minimum would allow the majority of the «share of proceeds» to go toward assisting developing country Parties particularly vulnerable to the adverse effects of climate change. **(Australia et al.)**

368. It would be beneficial and realistic if the collection of funds from certified project activities referred to in Article 12, paragraph 8, concerned all three flexible mechanisms so as to increase the amount available to cover administrative expenses and vulnerable developing countries' costs of adaptation. Adaptation projects in the least developed countries will require substantial investments beyond the capacity of the CDM alone. With that in mind, adaptation and administrative expenses should be funded by a levy of 15 per cent per mechanism. The Parties should be guided in drawing up projects by criteria consistent with the objectives set out in Article 12, paragraph 2, of the Protocol. **(Burkina Faso)**

369. In consideration of Article 12.8 of the Kyoto Protocol, sources of funds for adaptation projects should include the following:

(a) A tax on each of the three mechanisms - joint implementation, clean development mechanism (Article 12) and emissions trading (Article 17) to fund adaptation projects, and thus foster sustainable development in developing countries, particularly in Africa;

(b) A tax on bunker fuels; and

(c) A non-compliance fine on Annex I Parties. **(The Gambia)**

370. A share of proceeds from each project activity shall be used to cover administrative expenses of the CDM as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. **(Germany et al.)**

371. The share of proceeds shall be calculated on the basis of the certified emission reduction units resulting from each project activity. **(Germany et al.)**

372. A share of proceeds according to Article 12.8 shall be used to cover all administrative expenses of the CDM. **(Germany et al.)**

373. Administrative expenses of the CDM cover the administration of the executive board and of the share of proceeds for adaptation. **(Germany et al.)**

374. [...][7] **(Germany et al.)**

375. All of the Kyoto Protocol mechanisms: emissions trading, joint implementation and the CDM, shall contribute with a percentage of the transactions' value to meet the adaptation needs of developing countries. These contributions will be applied exclusively to finance adaptation costs originating in the adverse effects of climate change in developing countries, prioritizing the imminent damages to human lives (famine, epidemics, etc) and assistance operations (rescues of unexpected magnitude or character climate phenomena victims). **(Peru)**

376. In order to create a level playing-field, it is of the utmost importance that a fee is levied not only on the CDM but also on emissions trading and joint implementation, and put into an adaptation fund. This fee could be part of the administrative fee that accrues for writing or trading a CER or ERU, or whatever is decided to be a tradable unit. An adaptation fund should be established. **(Sierra Leone)**

377. The CDM needs to make provision for the funding and implementation of adaptation projects in all developing nations, with special provisions for those most vulnerable to negative impacts and the least developed. **(South Africa)**

378. Adaptation under the CDM has two main applications. With regard to countries able to host emission reduction projects (as measured against established baselines), the host country should benefit from the proceeds of CDM projects beyond mere project financing. These proceeds, preferably in the form of CERs, may be used to fund adaptation projects. With regard to the poorest and most vulnerable countries, these countries should be able to source adaptation funds from the adaptation fund which should be established as part of the CDM. **(South Africa)**

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[7] Text will be provided at a later stage.

379. Determination of share of proceeds for administration. It is proposed that a percentage of CERs be allocated to the local CDM agencies. All administration should be at a local level. The CDM board should be funded from normal subscriptions of Parties to the secretariat. **(South Africa)**

380. Togo suggests that the adaptation fund should be extended to all the flexibility mechanisms proposed under the Kyoto Protocol. **(Togo)**

381. Uganda proposes that adaptation be funded from the following:

(a) Adaptation cost be met from all the three flexible mechanisms of the Kyoto Protocol;

(b) A portion of monies accruing from measures taken by Annex I Parties to mitigate GHG emissions be channelled to meet adaptation costs;

(c) Non-compliance penalties;

(d) Voluntary contributions from Parties, multilateral agencies and other sources. **(Uganda)**

U. Adaptation assistance

382. AOSIS believes strongly that there is, and should be, no link between the Convention's and the Protocol's provisions on strategies for responding to any adverse impact of response measures and the Protocol's mechanisms. **(AOSIS)**

383. Keeping the administrative costs to a minimum would allow the majority of the «share of proceeds» to go toward assisting developing country Parties particularly vulnerable to the adverse effects of climate change. **(Australia et al.)**

384. It would be beneficial and realistic if the collection of funds from certified project activities referred to in Article 12, paragraph 8, concerned all three flexible mechanisms so as to increase the amount available to cover administrative expenses and vulnerable developing countries' costs of adaptation. Adaptation projects in the least developed countries will require substantial investments beyond the capacity of the CDM alone. With that in mind, adaptation and administrative expenses should be funded by a levy of 15 per cent per mechanism. The Parties should be guided in drawing up projects by criteria consistent with the objectives set out in Article 12, paragraph 2, of the Protocol. **(Burkina Faso)**

385. To facilitate the examination and financing of projects, the executive board should devise a simple project-presentation framework for use by developing countries. To give all Parties the same chance, this framework should, unlike its Global Environment Facility counterpart, be made simultaneously available in all United Nations languages. Account should be taken of the

criteria for assigning countries to the developing, least-developed, small-island and vulnerable categories and of the sustainable-human-development indicators proposed below. In addition, developing countries should be allowed a two- or three-year transitional period in which to select an official model for assessing vulnerability, the findings from which would serve as selection criteria (as in the case of the Sahel, not all countries yet have access to digital or mathematical models for vulnerability assessment). **(Burkina Faso)**

386. Sustainable-human-development indicators:

(a) Literacy rate;

(b) Enrolment rate at all levels of education;

(c) Life expectancy at birth;

(d) Per capita GDP. **(Burkina Faso)**

387. Priority areas for consideration by States in drawing up sustainable-human-development strategies or programmes:

(a) Poverty alleviation;

(b) Food security;

(c) Energy security;

(d) Job creation;

(e) Governance;

(f) Health, training, education;

(g) Environment;

(h) Research and development. **(Burkina Faso)**

388. Africa being recognized by the IPCC as a region that is very sensitive vulnerable to climate change, Burkina Faso suggests that 40 per cent of the available money be allocated to eligible African countries. **(Burkina Faso)**

389. The issue of adaptation costs is an important issue and needs further study. This issue has to be resolved in conjunction with the implementation of Article 4.8 and 4.9 of the Convention. A special fund should be established to assist in covering the adaptation costs, taking into account the implementation of Article 4.8 and 4.9 of the Convention. **(China)**

390. It is imperative that adaptation be given due attention, considering the predicament of African countries and the provisions in Article 4.1(e) and 4.4 of the Convention. Africa's vulnerability to the impacts of climate change is without question. The continent is highly susceptible to drought and desertification, the adverse effects of which will become more pronounced as the predicted climate change becomes more intense. African countries embody drylands and semi-drylands that are very vulnerable to the effects of climate change. Detailed vulnerability assessments should be conducted, urgently, on the African continent and specific implementable adaptation projects derived therefrom. **(The Gambia)**

391. A share of proceeds according to Article 12.8 shall be used to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. **(Germany et al.)**

392. Adaptation measures to be implemented under Article 12.8 shall be based on the guidance provided for in an appendix on adaptation measures (to be elaborated) **(Germany et al.)**

393. [...][8] **(Germany et al.)**

394. Adaptation technologies must facilitate vulnerable systems to cope with actual or likely pressures resulting from climate change. Food and nutritional well-being is a priority issue. In the context of food and nutrition, the poorest populations are the most vulnerable. Agricultural sustainability is a key area for developing initiatives related to adaptation. Any index for vulnerability under the CDM must take full cognizance of the vulnerable areas and situations in all the developing country Parties. **(India)**

395. CDM should serve the cause of alleviation as well as that of adaptation. Funds generated by CDM should be equitably allocated to island States and other non-Annex I countries, whether they are coastal or otherwise particularly vulnerable to climate change (vulnerability of coastal zones, but also vulnerability in terms of agricultural output - problem of food security - and public health). There is a need for emphasis on the vulnerability of Africa, which is at risk from:

(a) A rise in sea levels;

(b) Drought and desertification;

(c) Destruction of forests;

(d) Flooding. **(Senegal)**

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[8] Text will be provided at a later stage.

396. A special adaptation fund should be created under the CDM and reserved in large measure for Africa. If a fund is set up under CDM, it should not be "additional" as the GEF Fund is. The reason is the risk that, if costs have to be borne by the beneficiaries of an investment project (developing countries), many countries will be prevented by their own financial difficulties from taking advantage of CDM. What is needed is a mechanism that can function on a bilateral as well as a multilateral basis: it would have the advantages of better allowance for development needs and spreading of project risks. A multilateral scheme, however, might act as a brake on economic efficiency. **(Senegal)**

397. Of particular importance to African countries is the issue of adaptation to the negative impacts of climate change. It is important that the operation of the CDM would facilitate adaptation projects without the viability of emission reduction and sustainability initiatives. **(South Africa)**

398. Adaptation projects should contribute to a country's ability to adapt to the negative impacts of climate change and should be funded from a share of the proceeds of CDM projects. **(South Africa)**

399. Adaptation projects should take into account the vulnerability of countries in the following sectors:

(a) Food security

(b) Energy security

(c) Disaster response

(d) Water security

(e) Flood prevention

(f) Biodiversity

(g) Spread of disease

(h) Infrastructure development and enhancement - especially in building redundancy into infrastructures so as to make them more robust in meeting the variability associated with climate change. **(South Africa)**

400. Adaptation projects need to focus on long-term sustainability in the areas of: food security; energy security; disaster response; water security; flood prevention; and infrastructure development and enhancement, especially in building redundancy into infrastructures so as to make them more robust in meeting the variability associated with climate change. **(South Africa)**

401. The adaptation fund will be established under the auspices of the CDM board. The purpose of this fund will be to fund adaptation projects in underdeveloped nations as well as those most vulnerable to the negative impacts of climate change. It is proposed that a list of such nations be established based upon their vulnerability assessments and their current economic situation. Resources in the fund would then be allocated to the poorest and most vulnerable on the list, in accordance with procedures to be established by the board. The vulnerability assessments would also act as the primary source of information in identifying projects which enable those countries to adapt to the negative impacts of climate change. It is proposed that a percentage of all CERs be allocated to the adaptation fund. These CERs may then be sold to raise funds for adaptation projects. It is further proposed that at least some portion of the CERs be allocated to the host government for domestic adaptation projects. The funds raised as well as their allocation may then be included in the national communication. **(South Africa)**

402. Criteria and procedures for assisting developing country Parties that are particularly vulnerable to meet adaptation costs. These projects should be funded from the adaptation fund. The national communication should be used as the basis for an adaptation plan for most vulnerable countries. Criteria for the most vulnerable are as defined in the Convention. Allocations to these countries need to be equitable and prioritized in accordance with agreed principles. Where countries have not yet submitted national communications, increased effort from the GEF implementing agencies should facilitate. **(South Africa)**

403. Africa is the most vulnerable continent, as has been shown by the studies prepared by the IPCC, and national papers will back up these prospective studies. The many difficulties connected with participation by African countries in the process of climate change merely reflect the extent of this vulnerability, to which solutions must be found in order to enable the continent to become fully involved in the process. This therefore calls for measures and strategies for adaptation to the impacts of climate change. **(Togo)**

404. Africa, by far the most vulnerable continent at the present time, should enjoy special attention and benefit from a very substantial share in the allocation of these funds. Bearing in mind the efforts which will be required to adapt to the impacts of climate change, this will be a prerequisite for Africa's full participation in the process! **(Togo)**

405. Adaptation should be funded from the following:

(a) All three flexible mechanisms of the Kyoto Protocol;

(b) A portion of monies accruing from measures taken by Annex I Parties to mitigate GHG emissions;

(c) Non-compliance penalties;

(d) Voluntary contributions from Parties, multilateral agencies and other sources. **(Uganda)**

V. Supplementarity

406. AOSIS believes that the use of mechanisms by any Annex I Party has to be supplemental to its domestic action. Quantitative and qualitative rules and guidelines on supplementarity may be developed in the context of the elaboration of Articles 2 and 3.2. These binding commitments on policies and measures and on demonstrable progress would be seriously undermined if Annex I Parties were allowed to fulfil their obligations under Article 3 primarily through extraterritorial means. **(AOSIS)**

407. Rules on supplementarity should be developed in the context of the articles above and be subject to the reporting, in-depth review and non-compliance procedures under the Protocol, which should be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts constitute the primary means of achieving its quantified emission reduction limitation commitments. **(AOSIS)**

408. AOSIS is concerned, however, that an over-dependence of certain Annex I Parties on the use of the Kyoto Protocol mechanisms to achieve their commitments may undermine their ability to fulfil commitments domestically, to demonstrate supplementarity, and to undertake more ambitious commitments in the next round of negotiations. **(AOSIS)**

409. With regard to the principle of supplementarity, AOSIS believes that the legal and political character of any regional economic integration organization seeking special treatment under the Protocol must be assessed separately, particularly with regard to the division of climate-relevant competencies between the central authority and its member States. **(AOSIS)**

410. AOSIS strongly supports the concept of supplementarity and welcomes any proposals as to how it might be determined on either a quantitative or qualitative basis. **(AOSIS)**

411. It must be ensured that CDM project activities shall be supplemental to domestic actions by developed country Parties to meet part of their quantified emission limitation and reduction commitments. **(China)**

412. On this principle, the Kyoto Protocol has clear provisions relating to the three mechanisms. Specifically, regarding emissions trading, Article 17 stipulates: "Any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments" under Article 3. Therefore, concrete ceiling for the total amount of overseas offsetting acquired from the three mechanisms should be defined quantitatively and qualitatively. (See **Elements** No. 9 under Article 12, No. 19 under General, No. 6 under Article 6, and No. **8** under Article 17 - as listed in the **"Work Programme"**, annexed to COP decision 7/CP.4. (FCCC/CP/1998/16/Add.1). **(China)**

413. [...][9] **(Germany et al.)**

414. At no time should Annex I Parties be allowed to fulfil their obligations under the Kyoto Protocol only by using facilities provided in other countries. The use of flexibility mechanisms by Annex I Parties has been supplemental to domestic ones. **(Mauritius)**

415. The use of mechanisms through the countries listed in Annex B shall be supplemental to their domestic action. **(Sierra Leone)**

416. Supplementarity to domestic actions (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria). The mechanisms should be supplemental to domestic action; however, the extent of this supplementarity is dependent on the conditions attached to the mechanisms. If developing nations are able to bank credits and activities for long-term application, the mechanisms can be used to a major extent. Failing this, the major benefits go to developed nations and the use of mechanisms should be constrained. The question of the extent to which Article 3 commitments should be achieved through domestic action should be considered on a flexible basis so that achievement of the commitment makes the most efficient use of all available mechanisms of which domestic action is one. The question of equity will need to be discussed here as well. Consideration does however need to be given to the introduction of flexibility in the allocations to different mechanisms, especially as a function of time and as changing technologies, development rates and cost structures present new opportunities. As such, some means of revising these allocations needs to be established. This can only be achieved if the value of the credits are comparable. In the case of the CDM the fact that the mechanism itself should provide a percentage for adaptation should be built into the value so that the value of these credits is not inferior to those from the other two mechanisms. **(South Africa)**

417. Lack of authority to elaborate "supplemental to domestic actions"; inadvisability of doing so. It is desirable to include domestic action to avoid exploitation of short- term opportunities, especially in economies in transition, in exchange for long- term high costs. **(South Africa)**

418. Some central register is going to have to be kept at national level with some form of roll-up to international level. It is proposed that existing institutional mechanisms for trading and banking commodities should be investigated as the basis for tracking the creation, trading and banking of CERs and ERUs. This function may also be undertaken by national central banks or similar institutions. The same institution should be used for all mechanisms. For developing countries this would typically only apply to the CDM. However developed nations would also need to include ERUs developed under Articles 6 and 17. **(South Africa)**

419. Implications for benefits from the CDM in considering whether to elaborate "part of" in Article 12, paragraph 3 (b). **(South Africa)**

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[9] Text will be provided at a later stage.

420. Application of any quantification of "supplemental to domestic actions" to each individual State within a regional economic integration organization. This currently applies solely to the EU, the targets being set at the level of the EU and they then allocate them amongst themselves. It is recommended that the targets be set at a macro level and that the COP/MOP review individual country allocations in order to overcome any obvious inequities. **(South Africa)**

421. Supplementarity to domestic actions for achieving compliance with reduction commitments under Article 3 (concrete ceiling defined in quantitative and qualitative terms based on equitable criteria). It is desirable that this be as simple as possible. It is emphasized that, even if reductions in developing nations are lower-cost in the short term, in the long-term the costs to developing nations will escalate to levels higher than the costs in developed countries. As such it is essential that higher-cost options are implemented in developed nations so as not to compromise the ability of developing countries to implement cost-effective reductions of their own. At the same time, if the CDM enables developing countries to obtain recognition for emission reductions in their territories by getting an allocation of CERs for future application against their own targets, then the issue of supplementarity is not as problematic. If developing countries cannot bank credits then domestic action should be high; if developing countries can bank credits, then domestic action can be low. **(South Africa)**

422. Compliance-related issues. The main issue here is the percentage compliance with targets using the CDM. Other compliance issues such as validity and duration of CERs are covered under audit and validation. **(South Africa)**

423. Uganda is a least developed country and among the most vulnerable countries to adverse effects of climate change. It therefore strongly believes that reduction of greenhouse gases under the Convention and the Protocol must be primarily done within Annex I Party territories. In this regard, offshore activities leading to reductions or avoidance of GHGs must be supplemental. The level of domestic reduction and offshore reductions or avoidance must be quantified. Also due attention must be paid to the quality of credits resulting from offshore reduction, avoidance or sequestration. Discussions of the quantification should proceed in parallel with the discussions on design of the flexible mechanisms. **(Uganda)**

424. Uganda, as a least developed country Party, is vulnerable to adverse effects of climate change and is also least able to adapt to adverse effects of climate change. The Convention under Article 4.4 calls on developed country Parties and other developed country Parties included in Annex II to assist developing country Parties that are particularly vulnerable to adverse effects of climate change in meeting costs of adaptation. The Kyoto Protocol also states that a share of proceeds from the CDM should go towards meeting the cost of adaptation. **(Uganda)**

W. Issues related to compliance

425. Rules on supplementarity should be developed in the context of Articles 2 and 3 and subject to the Protocol's reporting, in-depth review and non-compliance procedures, which should be empowered to suspend the right of a Party to access mechanisms in circumstances where it has failed to demonstrate that its domestic efforts form the primary means of achieving its quantified emissions reduction limitation commitments. **(AOSIS)**

426. AOSIS wishes to express strong support for the establishment, under Article 18, of "appropriate and effective procedures and mechanisms to determine and to address cases of non-compliance with the provisions of this Protocol, including through the development of an indicative list of consequences, taking into account the cause, type, degree and frequency of non-compliance." Included among these consequences must be the authority to suspend the ability of any non-complying Party to benefit from participation in the mechanisms. **(AOSIS)**

427. AOSIS believes the mechanisms can play a central role in promoting compliance by offering cost-effective means of emissions reductions, by encouraging the transfer of financial resources and technology, and by engaging the private sector and developing countries in the business of reducing greenhouse gas emissions. **(AOSIS)**

428. Conditioning the access of Parties to the benefits of participating in the mechanisms on their demonstrating compliance with Protocol obligations will also provide a powerful incentive. **(AOSIS)**

429. It is assumed that there would be a short period after the end of a commitment period during which Parties would have the opportunity to cure any overage, e.g., through acquiring units of assigned amount. One issue is whether, after that short period, a Party whose emissions exceeded its assigned amount for the previous commitment period should retain its eligibility to participate in emissions trading under Article 17 in the subsequent commitment period. **(Australia et al.)**

430. These end-of-commitment-period issues merit further consideration, taking into account discussions on the overall non-compliance regime. **(Australia et al.)**

431. Compliance. Use standard systems to measure compliance – with clearly defined interpretation of the targets set – indicating tons to be met over the Kyoto Protocol compliance period. The measure of compliance is then emissions over this period minus the total of credits held by that Party. It is therefore clear that any Party with targets needs to put a system in place to track credits held in its territory, including some form of central bank which tracks transactions in both CERs and ERUs. Penalties for non-compliance should be negotiated under Articles 12 and 17 rather than Article 18. **(South Africa)**

432. Process for assessing compliance with Articles 5 and 7 – to be carried out according to procedures and mechanisms defined under Article 18. **(South Africa)**

433. Compliance-related issues. These are the same for all mechanisms and include: Emission reduction quantification; Life times of credits; Ownership, trading, banking; Application of credits against targets. **(South Africa)**

434. Consequences of non-compliance – to be covered according to procedures and mechanisms defined under Article 18. **(South Africa)**

435. For each of the three Kyoto Protocol mechanisms, there is a need for independent validation/certification. Under Article 6, each project must be validated to ensure that it meets the project eligibility criteria and has a baseline that meets agreed standards, and the resulting emission reductions must be certified after they have occurred. The same basic validation/certification requirements generally hold true for Article 12 as well. Under Article 17, the national systems for the preparation of emission inventories must be validated[10] to conform with the guidelines to be decided upon by the COP/MOP and, in the case that legal entities are authorised to participate in emissions trading, national systems for accurate tracking and accountability of trading activity by legal entities must also be validated to ensure that they meet the requirements to be specified under the rules for Article17. Furthermore the amount of excess PAA units available to a Party must be certified – and certificates issued – annually (assuming a post-verification trading system as described below). **(Switzerland)**

436. Building on existing know-how and institutions, the generally local independent "operational entities" (borrowing the terminology from the Kyoto Protocol for the CDM) could be accredited to perform the necessary validations/certifications by existing national or regional accreditation authorities designated by the COP/MOP. In the case of the CDM, Article 12.5 states that the operational entities are to be designated by the COP/ MOP, but this "designation" could occur via national/regional accreditation authorities to avoid an administrative bottleneck. We would welcome discussion of this and other possible approaches at the upcoming sessions of SBSTA/SBI. For the other mechanisms, operational entities are not explicitly mentioned, but will be needed if validation/certification is required, as we propose above. **(Switzerland)**

437. Operational entities must be accredited by designated national/regional authorities to perform validation/certification on the basis of a set of protocols (or standards) for validation or certification. These validation and certification protocols must by adopted by the COP/MOP. In the case of emissions trading and joint implementation, the secretariat might be given the task of actually issuing certificates based on the certification report by the operating entity, or this task might be performed under the CDM by the executive board. **(Switzerland)**

438. If such a system is established, it would only apply to those Parties that choose to engage in the Kyoto Protocol mechanisms, and would have to be linked to the entire system for measuring, reporting, review and compliance under the Protocol (including the expert review

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[10] It is essential for the credibility of the emissions trading system that national emission inventory systems/data be validated by an accredited independent instance. Otherwise there is huge room for falsification of inventory data, since uncertainties of 50-100 per cent or more are not uncommon.

process under Article 8, which applies only to Annex I countries). The review process in Article 8.1 and the expert reviews under Article 8.2 might be used to spot check the performance of the operational entities acting in those Annex I Parties engaging in joint implementation, CDM or emissions trading. The Article 8 reviews, however, could not replace the verification/certification process for the Kyoto Protocol mechanisms. **(Switzerland)**

X. Periodic review

439. The COP/MOP shall review these modalities and procedures five years after their adoption and periodically thereafter. **(Germany et al.)**

440. Any revision of these modalities and procedures will not have an impact on emission reductions already certified. **(Germany et al.)**

Y. Further work

441. The Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation should take up the issues raised in this paper on a priority basis. Categories of issues to be taken up for further elaboration include:

(a) Criteria for participation;

(b) Criteria for accreditation of operational entities and entities for independent auditing;

(c) Project eligibility criteria;

(d) Methodologies for calculating emission reductions or removals, including for establishing benchmarks and project-specific baselines;

(e) Guidelines and procedures for registration, certification, auditing/verification and reporting;

(f) Systems for recording and tracking serialized CERs once they have been issued;

(g) Institutional roles;

(h) Compliance;

(i) Criteria/guidelines for «share of proceeds» to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the cost of adaptation;

(j) Linkages between the CDM and other mechanisms. **(Australia et al.)**

442. This proposal does not cover all of the issues that the European Community and its member States and Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Poland, Romania and Slovenia believe need to be addressed. The following questions should be discussed. **(Germany et al.)**

443. Definition of "part" under Article 12.3(b). In accordance with Article 12.3(b), the "part" of a Party's quantified emission limitation and reduction commitments under Article 3 that can be met through CERs in any one commitment period must be determined by the COP/MOP:

(a) How should this "part" be defined?

(b) What would be an appropriate level? **(Germany et al.)**

444. Baselines. Accurate definitions of baselines must ensure environmental additionality of CDM projects:

(a) What criteria will be required for the determination of baselines?

(b) Who should be responsible for ensuring the validity of the baseline?

(c) How regularly should baselines be reviewed? **(Germany et al.)**

445. Additionality:

(a) How can environmental additionality be ensured?

(b) How can financial additionality be ensured? **(Germany et al.)**

446. Share of proceeds:

(a) On what basis should the share of proceeds be calculated?

(b) What portion should be allocated to administrative expenses and adaptation?

(c) What criteria could be used for the allocation of means for adaptation? How should these criteria be developed? **(Germany et al.)**

447. Institutional arrangements. The identity, role, funding, appointment, accountability, etc. of the executive board and operational entities are important for the operation of the CDM:

(a) What will be the role of operational entities?

(b) Could validation and certification be carried out by the same operational entity?

(c) What will be the role of the executive board? **(Germany et al.)**

448. Sustainable development:

(a) How can the CDM assist in achieving sustainable development?

(b) How can capacity-building be furthered by the CDM? **(Germany et al.)**

449. Project sector eligibility:

- Which project sectors will be eligible for CDM projects? **(Germany et al.)**

Z. Capacity-building

450. Participation in any of the Kyoto Protocol mechanisms will require substantial capacity in both the 'transferring' and the 'acquiring' countries, particularly in developing and least developed countries. Experience from the AIJ pilot phase, and from the domestic use of similar 'mechanisms', demonstrates that sophisticated means of monitoring, reporting and verifying emissions will be required of any country wishing to host or transfer emission reductions. **(AOSIS)**

451. AOSIS believes that the existence of capacity must be demonstrated as a prerequisite for participating in the mechanisms, and that resources should be made available to eligible Parties to meet the costs of building such capacity. **(AOSIS)**

452. AOSIS further considers it to be necessary to establish a specific mechanism to assist developing countries with the capacity-building required for these countries to be able to participate in the clean development mechanism. Such a mechanism should be established well in advance of the implementation of the Kyoto Protocol mechanisms. **(AOSIS)**

453. The CDM should also ensure capacity-building and access to information by all interested Parties. **(Australia et al.)**

454. Capacity-building is a crucial element to the success of the CDM. Information on a variety of topics will need to be made available to interested participants. One way in which this could be achieved is through an electronic clearing-house (a Web site) that will provide access to general information and technical assistance. The clearing-house could provide information exchange services, links to other sites (e.g., technology-related sites such as the Climate Technology Initiative or national Web sites on domestic criteria), participant and project eligibility criteria, CDM rules and procedures, and project opportunities around the world. Information, such as a list of operational entities and any reports submitted to and approved by the COP/MOP, could also be housed here. Other types of information services that could be provided include technical assistance on such issues as baselines and monitoring, contracts, and points of contact within participating Parties. **(Australia et al.)**

455. Developing countries can influence the distribution of CDM project activities by promoting an enabling environment that will encourage the development of CDM projects within their borders. Parties could also work to improve capacity for undertaking project activities. These types of capacity-building activities can promote broad participation in the CDM without the introduction of market-restricting rules. **(Australia et al.)**

456. The structure and functions of the CDM should be in the form of a multilateral arrangement, a clearing-house and a fund, that would be proactive enough to assure geographical distribution of CDM projects, equity, efficiency and sustainable development. The structure (fund/clearing-house) may accommodate both public and private investment funds. The structure does not necessarily have to follow the GEF pattern nor fall within the ambit of the World Bank. The clearing-house should be the coordinating office. Consideration should be given to using existing facilities/ institutions at national, subregional and regional levels that are up to the tasks of the clearing house. The structure could serve to facilitate the following:

(a) Selection and screening of projects and other matters involving stakeholders and other interested Parties;

(b) Resource mobilization and utilization;

(c) Awareness creation;

(d) Organizing forums for CDM policy discussion and formulation and networking with appropriate institutions;

(e) Formulation of CDM plans;

(f) Information/contact bureau. **(The Gambia)**

457. Capacity-building in developing countries, particularly in Africa, is a prerequisite for meaningful implementation of the Convention and effective participation in the Kyoto Protocol activities, particularly the CDM. Considerable attention should be focused on assessing and meeting the capacity needs of African countries, especially on the organization of the CDM; selection and implementation of CDM projects; accounting for emission reductions and carbon flows; determination of financial additionality (incremental costs); environmental additionality (real greenhouse gas reductions), using certification methodologies; and developing and using sustainable development indicators. **(The Gambia)**

458. In particular, provision should be made for capacity-building and expansion of the knowledge base in developing countries, particularly in Africa, to ensure availability of a critical mass of specialists in all relevant areas. The capacity-building programme should be implemented through intensive awareness creation, workshops, networking, exchange

programmes, local training and technical assistance, as well as in-depth training in the following areas:

(a) Fostering institutional linkages, setting up of the necessary CDM administrative structures and operation of the cycle of activities leading to the implementation of CDM projects;

(b) Development/selection/screening of appropriate CDM projects in host countries, that contribute to sustainable development (including appropriate technologies), in accordance with national priorities and goals; and preparation of project proposals for funding of the different components;

(c) Certification of emission reduction units and other aspects relevant to CDM monitoring, verification and reporting;

(d) Identification of the prerequisites for accessing the three mechanisms;

(e) Teamwork generation for successful initiation and implementation of CDM projects;

(f) Establishment of appropriate project selection criteria for assessing key aspects such as comparative risks and eligibility (financial and environmental additionality);

(g) Cost/benefit analyses, determination of financial additionality that ties up with the projects' sectors and project-level baselines and economics; and

(h) Negotiations with investors and methodologies for designing and negotiating protocols for, *inter alia*, verification and monitoring of the projects. **(The Gambia)**

459. Information on clean technologies and on the scope for mitigation and adaptation must be widely disseminated. Priorities should be given to activities to strengthen Parties' capacity to improve transfer of clean technologies with a view to identifying specific tasks in that regard -hence the proposal to establish a technology-transfer mechanism that is much better suited to optimum, efficient implementation. **(Senegal)**

460. At this stage of the negotiations, highest priority should be given to capacity-building. As an essential part of the capacity-building we see the establishment of (sub) regional information and advice centres for the CDM. These centres would provide information about ongoing activities and investment possibilities both for donor and host institutions. They could establish databases of regional expertise and capacity. Beyond this they could design a project approval process and give advice on understanding of operation, financing, and strategy development and developing capacity. In this light, such centres could assist countries in meeting their common but differentiated commitments under Article 10(b). **(Sierra Leone)**

461. Capacity-building is an essential component of a successful sustainable development strategy. The CDM should therefore include assistance to developing countries particularly in the areas of design, implementation and evaluation of projects. Special attention should be given to strengthening the ability of developing countries to absorb and generate technologies. **(South Africa)**

462. In particular the CDM needs to make provision for local capacity-building as well as adaptation projects. Capacity-building needs to focus on the ability to define, structure and implement CDM projects in such a way as to ensure the equitable access of all nations to the mechanism. **(South Africa)**

463. The strengthening of human and institutional capabilities is in our view a matter of priority in enabling the non-Annex I Parties to further enhance the process in order to achieve the objectives of the Convention and the Protocol. **(Togo)**

464. At the last session of the COP, the problem of capacity-building in developing countries and particularly in Africa dominated the discussions under the various agenda items. Uganda, as a least developed country Party, has serious capacity problems. Uganda also notes that capacity-building is a continuous process and therefore cannot be addressed by any one single agency. It is upon this rationale that Uganda proposes the following approach:

(a) Strengthening of the national focal point or climate change secretariat to ensure a firm and solid basis upon which national implementation efforts will be based. The national focal point or climate change secretariat would be the entry point for all Convention and CDM activities by the international community. The focal point or climate change secretariat would also provide an information base centre point for all national institutions in the course of the implementation of the Convention and the Kyoto Protocol;

(b) Strengthening of relevant key regional, subregional and national training institutions which would undertake capacity-building within a region, subregion and country. Areas of focus would include the following:

(i) Project formulation

(ii) Project monitoring

(iii) Project auditing and verifications

(iv) Certification of credits accruing from CDM/joint implementation projects

(v) Baseline development

(c) Organization of well-planned and focused workshops;

(d) Training through detachment to developed country Parties where applicable.

Uganda also believes that capacity-building is a prerequisite to implementation of the flexible mechanisms. It is therefore important to establish some mechanism to assist developing country Parties and particularly African country Parties to attain the necessary capacity to play their role in the Convention process. **(Uganda)**

465. For real assistance to the developing countries in the selection of CDM projects it is necessary to create a bank of the technological proposals of Annex I Parties. It is also required to envisage a series of regional training workshops for the developing countries for the consideration of the specific features of CDM projects' realization, the procedure of certification of the emission reduction, its marketing and estimation of CER unit cost. The parts of the document which specify the aspects and priorities should fix and comprehensively define the conditions and specific features of the development and transfer of technologies on this mechanism, the strengthening of potential and realization of ecological benefit. **(Uzbekistan)**

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